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AN INTRODUCTION TO FINANCIAL MANAGEMENT
IN THE MILITARY SEA TRANSPORTATION SERVICE

LOUIS P. ROSSI

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**AN INTRODUCTION
TO
FINANCIAL MANAGEMENT
in the
MILITARY SEA TRANSPORTATION SERVICE**

by

**Louis P. Rossi
Lieutenant Commander
Supply Corps
United States Navy**

BACHELOR OF SCIENCE

1946

UNITED STATES NAVAL ACADEMY

**A thesis submitted to the faculty of the School
of Government, Business and International Affairs
of The George Washington University in partial
satisfaction of the requirements for the degree
of Master of Business Administration**

June 6, 1962

**Thesis directed by
Arlin Rex Johnson, Ph. D.,
Professor of Business Administration**

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PREFACE

Early in my naval career, I was assigned the responsibility for processing cargo through one of the largest seaports in the Mediterranean. The task was an interesting one -- one which provided a high degree of personal satisfaction, since it made me feel that I was directly contributing to the support of our forces in Southern Europe. The primary link between these commands and the American way of life was ocean transportation. Our cargo was delivered by all sorts of vessels: escort aircraft carriers, other military type ships, tramps, plush ocean liners, troop transports, ships of foreign registry, American flag ships, and the like. All of the cargo, however, was delivered under the guiding hand of the Military Sea Transportation Service. I often wondered, during that tour of duty, how this organization could control this heterogeneous fleet, how it determined its requirements, and how it implemented its plans.

Many years have passed since that time, but the urge more fully to understand the inner workings of the Military Sea Transportation Service remained. My post-graduate studies have focused this curiosity on the field of financial management, and have led me to the preparation of this paper. Its purpose is to describe the function of financial management and how it is performed in the Military Sea Transportation Service. It has been prepared primarily for self education with the hope that it may also be of use to those officers who are about to become associated with comptrollership in the field of ocean transportation.

I would like to take this opportunity to extend my appreciation and thanks to Dr. A. Rex Johnson, Director of the Navy Graduate Financial Management Program, to Miss Helen McNulta, to Captain William W. Hobgood, Supply Corps, United States Navy, Comptroller of the Military Sea Transportation Service, and to the members of his staff. Without their patience and assistance, this paper would not have been possible.

I think that in some cases it may be better to have
a small number of people who are interested in the
subject, rather than a large number who are not.
This is especially true in the case of the
study of the history of the world, which is
a subject which is not very popular at the
present time.

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CHAPTER I

FIRST THINGS FIRST

Before discussing the details of financial management in the Military Sea Transportation Service, it appears appropriate to provide a general background of ocean shipping under the control of the Department of Defense and to touch upon some of the governmental policies which influence the structure and operation of the largest shipping line in the world. The purpose of this introductory chapter, therefore, is to set the stage for financial management by briefly discussing the development and organization of the Military Sea Transportation Service, its mission, and how it accomplishes this mission within the framework of public policy.

Historical Background

Although the history of the Military Sea Transportation Service is a brief one, military control of ocean shipping is not of recent origin. In 1898, the United States Army established the Army Transport Service for the purpose of supporting relatively large combatant forces in the Caribbean and the Philippine areas.¹ During World War I, another organization, the Naval Overseas Transportation Service, was formed to meet the troop transport requirements of that emergency. In 1920, this command became known as the Naval Transportation Service.² At the beginning of World War II, an attempt was made to consolidate the two transport services under Navy

¹ U.S., Dept. of the Navy, Bureau of Naval Personnel, Military Sea Transportation and Shipping Control, NAVPERS 10829-A, (Washington, D.C.: Navy Training Publication Center, 1954), p. 42.

² Ibid., p. 55.

control, but this effort failed when the Navy was unable to effect suitable arrangements for the manning of the Army ships. So World War II military ocean shipping requirements were handled by two separate organizations - the Army Transport Service and the Naval Transportation Service. Naturally, such an arrangement entailed duplication of services and facilities and hindered the achievement of economy and maximum utilization of resources.

After the war, studies were made to develop a centralized ocean transportation agency. In 1949, under the authority of the National Security Act of 1947, the Secretary of Defense assigned the function of ocean transportation to the Secretary of the Navy.³ As a result, the Military Sea Transportation Service was created in August of that year for the purpose of providing, under one authority, the sea transportation for the personnel and cargoes of the Department of Defense. It was established as a major component of the United States Navy and was given status comparable to that of a fleet operating directly under the Chief of Naval Operations.⁴ By November of the following year, all ships of the two individual transportation services had been transferred to the new agency. Thus ended the duplication and overlapping responsibilities of the Army and the Navy in the field of ocean transportation. But more importantly, the consolidation of the function of ocean transportation under one authority satisfied a requirement which had long been recognized and which had been clearly and almost disastrously demonstrated during World War II ... the need for a peace time ocean transport organization capable of rapid and efficient expansion during periods of national emergency.

³ U.S., Dept. of Defense, Directive of the Secretary Establishing the Military Sea Transportation Service, dated 2 August, 1949.

⁴ U.S., Dept. of the Navy, Secretary of the Navy's Charter to the Military Sea Transportation Service, dated 15 September, 1949.

The opportunity to test the concept of a centralized ocean transportation agency under the stress of a national emergency presented itself almost immediately. On June 25, 1950, a shooting war broke out in Korea. At the beginning of the conflict, only six commercial vessels were under charter to the agency, but by the end of the year, the fledgling was full grown and performing as a veteran.⁵ At the peak of the Korean War, a total of 335 commercial vessels were under charter carrying eighty-five percent of all American military cargoes to the Far East.

In time of war or peace, the Military Sea Transportation Service has proven itself a versatile arm of defense and American foreign policy. In September, 1950, its ships participated in the successful Inchon landings. Later, in December, MSTS ships evacuated 105,000 soldiers, 91,000 civilians, 17,500 vehicles and 350,000 tons of supplies from Hungnam. By 1957, large scale movements of men and material had become routine. Hungnam was followed by "Operations Reclaim" when 14,500 non-repatriated Chinese prisoners of war were lifted from Korea to Formosa; then "Passage to Freedom" or the mass evacuation of thousands of Vietnamese people from Northern Vietnam to Saigon; then "Operations Gyroscope" or the lifting of entire Army divisions and their dependents across the Atlantic; and finally the mass evacuation of Hungarians in 1957 during the uprisings against communist oppression.⁶

New frontiers are not beyond the reach of the Military Sea Transportation Service. In 1951, the agency participated in its first

⁵ U.S. Dept. of the Navy, The United States Navy's Military Sea Transportation Service, (Washington, D.C.: U.S. Govt. Printing Office, 1959) p. 3.

⁶ Ibid., p. 4.

Arctic operations bringing men and supplies to the Air Force base at Thule, Greenland. During the 1957 Arctic resupply operations, the HMCS Labrador and ships of the Coast Guard assigned to MSTS successfully surveyed and chartered a safe passage way for deep drafted ships across the top of North America. Today, these new horizons are expanding. Special projects designed to support new types of requirements in the field of scientific and applied research within the military establishment are increasing. "Not only does MSTS provide the ships to act as ocean platforms for support of the project equipment and personnel, but it also provides the technical knowledge in the field of ship design, maintenance, supply support, security, communications, etc., necessary for initial project plans."⁷ Special projects now include support to hydrographic surveys, oceanographic research, missile range tracking, arctic operations, fleet ballistic missile resupply, and other such programs.

The Mission

In 1956, the Department of Defense adopted the concept of the single manager for common items of supply and for common services such as traffic management. Although the Military Sea Transportation Service had, from its inception, functioned in such a capacity, the Secretary of Defense designated the Secretary of the Navy as the Single Manager for Ocean Transportation. Accordingly, the Commander of the Military Sea Transportation Service was designated as the Executive Director for Ocean Transportation.⁸ His authorities and responsibilities and the mission

⁷ U. S., Dept. of the Navy, Military Sea Transportation Service, Narrative Statement, Supporting the Fiscal Year 1962 Budget.

⁸ U. S., Dept. of Defense, Single Manager Service Assignment for Ocean Transportation, DOD Instruction 5160.10 dated 28 May, 1956.

of his organization, however, remained unchanged. As defined by the Chief of Naval Operations, the mission of the Military Sea Transportation Service is to:

- a) Provide under one authority, control, operation, and administration of sea transportation for personnel and cargo of the Department of Defense (excluding that transported by the units of the Fleet) and as authorized or directed for other Government agencies of the United States, subject to policies and priorities issued by the Joint Chiefs of Staff.
- b) Prepare plans for its employment and expansion in time of national emergency based upon the policies and directives of the Joint Chiefs of Staff and to maintain a basic organization capable of expansion to implement such plans.
- c) Consult with the appropriate agencies of the Department of Defense in coordinating execution of approved emergency plans requiring the services, facilities, and personnel of commercial sea carriers, and in negotiating therefore.⁹

It is tailored to resolve ... "A question which has dogged this country for decades ... how to keep up, in time of peace and without undue drain on the national treasury, a merchant marine of a size and composition capable of meeting battle requirements."¹⁰

The Nucleus and Commercial Fleets

To carry out its mission, the agency operates a fleet of 150 ships of varying design, type, and size. There are two major components of the fleet, the nucleus fleet consisting of government owned and operated vessels and contract operated government vessels, and the commercial fleet consisting of General Agency Agreement ships and chartered privately owned bottoms.

⁹ U.S., Dept. of the Navy, Chief of Naval Operations, Military Sea Transportation Service - Directive, OPNAV Instruction 5440.20B of 9 August, 1956.

¹⁰ Louis R. Fiore, "MSTS - The Navy's Fourth Arm", U.S. Naval Institute Proceedings, Vol. 83, No. 8, August 1957, p. 868.

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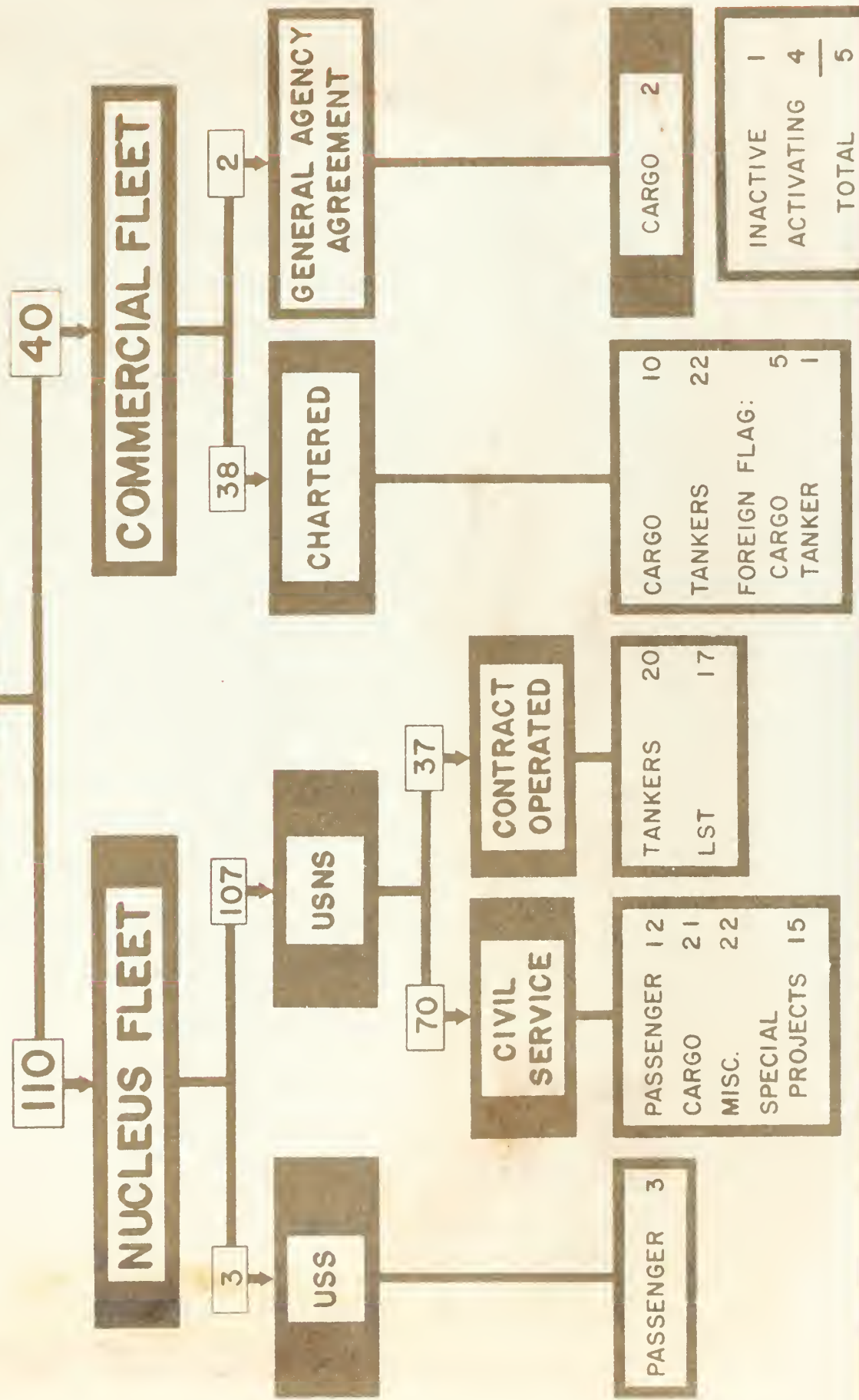
The fleets are manned by civil servants, military personnel, and regular merchant seamen. A schematic illustration of the composition of the operating forces is shown in PLATE I.

The strength and profile of the nucleus fleet depend entirely on the mobilization base necessary to support the plans of the Joint Chiefs of Staff. It is an insurance factor, a nucleus of men and equipment which can be expanded or contracted quickly to meet the shipping requirements of the armed forces and to meet whatever international crises the future may hold. The fleet of government ships consists of the following types:

1. USS Ships - These are commissioned United States Navy Ships, manned by uniformed Naval crews and assigned to the control of the Military Sea Transportation Service. For the most part, they are the remnants of the old Navy Transportation Service.
2. USNS Civil Service Ships - These ships are classified as United States Naval ships and are manned by civilian marine personnel with civil service status, who, by law, are paid the same wages as those prevailing for American Merchant Marine crews.
3. USNS Contract Operated Ships - This segment of the nucleus fleet consists of USNS ships operated by private companies under cost-plus-a-fixed-fee contracts. The tankers are manned by regular American Merchant Marine crews. The other vessels are operated by Japanese crews, and employed in local operations in the Far East.

AS OF 1 FEB 1962

ACTIVE MSTs FLEET 150

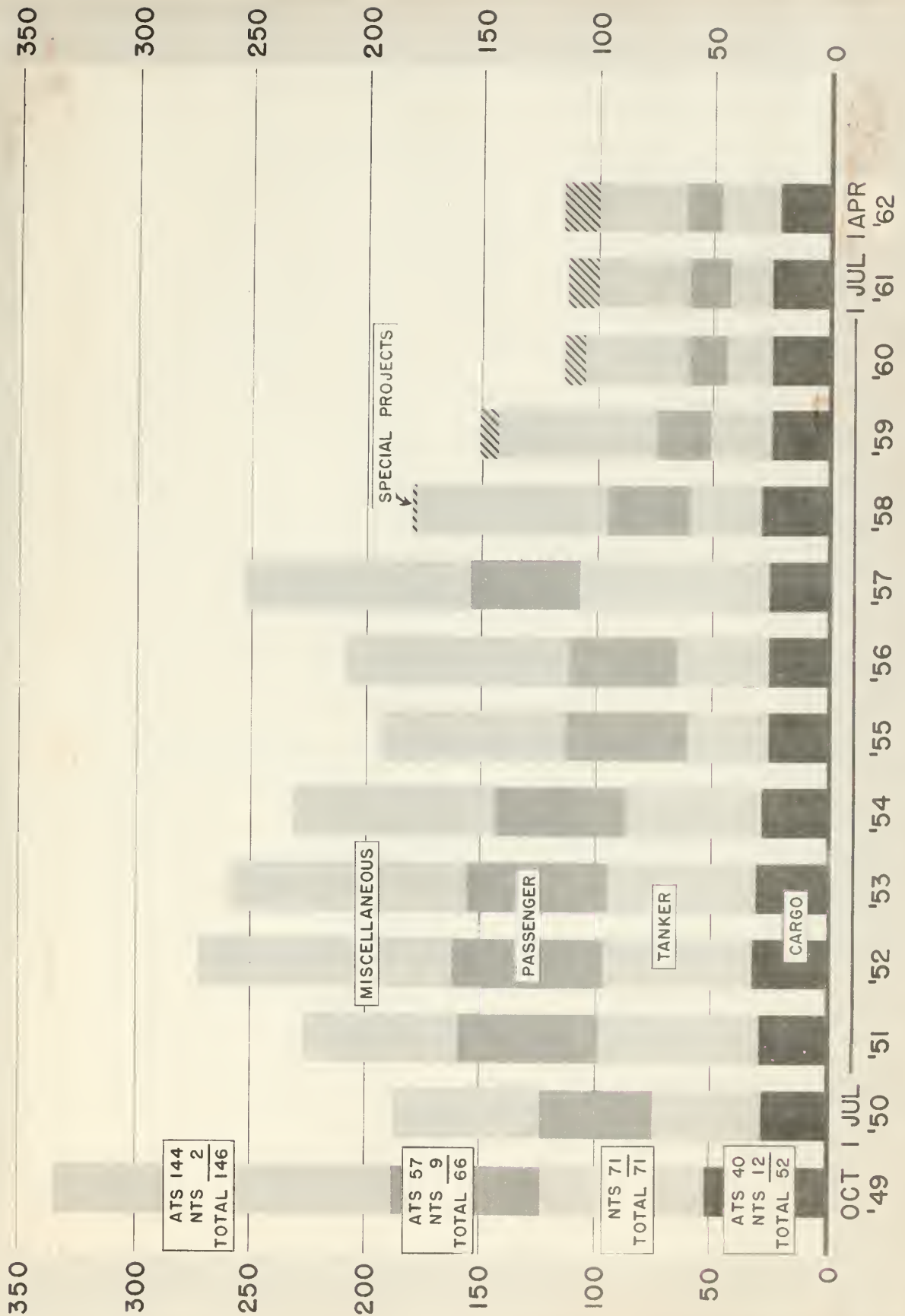


The development of the nucleus fleet since the establishment of the Military Sea Transportation Service is shown graphically in PLATE II. Today, it is but a third of the size of the Army and Navy Transport fleets which were made available in 1949 to the agency. Except for the expansion required during the Korean War and the Suez and Lebanese crises, the decline in strength has been steady and is attributed, in part, to the benefits reaped from the consolidation of the ocean transportation function under one authority. Another contributing factor is the increased use of air transportation, particularly in the movement of personnel. It is noted that the number of cargo carrying units of the nucleus fleet has remained relatively steady, while the fleet of tankers has fluctuated inversely with the stability of the world situation. This was particularly evident during the closing of the Suez Canal, when the rerouting of petroleum lifts caused a severe shortage in petroleum carriers. While the nucleus fleet has diminished in size, the number of special project ships involved in research has increased steadily since their introduction in 1958.

As stated earlier, the fleet of government owned vessels is only a nucleus upon which to build in times of emergency. Its peacetime employment, however, is not in competition with the American Merchant Marine since it is used extensively on special missions and on shipping lanes not serviced by American flag vessels or where lift requirements exceed commercial capability. By and large, the majority of the peacetime lift requirements of the Department of Defense are satisfied by the American Merchant Marine.¹¹ In this connection, the Military Sea Transportation Service acts as the centralized procuring agency for

¹¹ U.S. Dept. of the Navy, Military Sea Transportation Service, Financial and Statistical Report, MSTS Report 7700-2, Part II, First Nine Months, Fiscal Year 1961, p. 1.

DEVELOPMENT OF THE MST'S NUCLEUS FLEET



ocean transportation. Commercial shipping is procured under various types of maritime contracts, including time charters, shipping contracts, berth term shipments under government bills of lading, cost-plus-fixed-fee contracts, and voyage charters. Since any given mix of contracts can have a significant effect on financial operations, it is important to identify the characteristics of each type of contract.¹²

1. Time Charter: A contract whereby a shipowner puts a ship and her crew at the disposal of the charterer for a given period of time. The owner retains control of the ship and her crew and operates the ship for the charterer. The owner pays the ordinary running expenses and the charterer pays charter hire and those expenses including fuel, which are incident to the trade in which the ship will be employed. Charter hire may be paid on a per diem basis, monthly basis, or on a deadweight capacity basis.

2. Voyage Charter: A contract whereby a shipowner places a ship or a portion of the ship at the disposal of the charterer for the carriage of cargo on a particular voyage. The owner retains control of the ship and the crew and pays for the operating expenses. The charterer furnishes the cargo and pays freight either in accordance with the amount of cargo carried or on a lump sum arrangement.

3. Berth Term: The shipment of cargo on regularly traveled routes at the going commercial rate, or in the case of large shipments a special rate. Such shipments are documented on a government bill of lading.

¹²U.S., Dept. of the Navy, Office of General Counsel, Navy Contract Law, NAVEXOS P-1995 (2nd rev. Washington, D.C.: U.S. Government Printing Office, 1959, p. .

4. MSTS Shipping Contracts: A master type of contract modeled after the berth term method with special clauses added. Shipping orders are issued for a specific shipment under which cargo is moved at rates previously negotiated by the parties concerned and have been incorporated in the contract for a set period of time.

5. Cost-plus-a-fixed fee: These contracts are normally employed for the operation of tankers and LET's owned by the government. The services of commercial shipping companies are obtained to operate these government owned ships on a commercial basis with their own merchant marine personnel. The companies are paid a fixed fee and their costs of operation in accordance with standard government cost reimbursement principles.

Organization

The Military Sea Transportation Service is an operating fleet of the Navy under the direct control of the Chief of Naval Operations and the administrative control of the Assistant Secretary of the Navy (Supply and Logistics) for procurement matters. The Commander, a vice-admiral, is located at the seat of the government. He is assisted by a Deputy Commander and three Assistant Chiefs of Staff. His staff organization is patterned after a sea-going staff with certain exceptions necessitated by the specialized functions it is performing. The field organization consists of four Area Commanders, two Sub-area Commanders, and twenty-two offices geographically positioned where they may best serve the needs of the armed forces. It is a large organization, with about 10,200 personnel,
¹³
 8100 of whom are afloat.

Financing Operations

When the agency was first established, its operations were financed through advances from the annual appropriations of the military services. This method of financing had many shortcomings and was not suited to the commercial type of operation in which the organization was engaged. A few of the more significant disadvantages included the following:

(1) inflexibility caused by the receipt of funds in three distinct purses; (2) fiscal limitations imposed within each of the supporting appropriations; and (3) the complication of reporting procedures because of the necessity of complying with the reporting requirements of each appropriation. Appropriation advances also precluded the flexibility required for long range planning, and denied the Commander of the Military Sea Transportation Service the management prerogative of determining the use of the funds in providing ocean transportation.

In May of 1951, the Military Sea Transportation Service was authorized to operate under the Naval Industrial Fund, in accordance with the provisions of Title IV of the National Security Act of 1947, as amended.¹⁴ The Naval Industrial Fund provided the agency with a single revolving fund with which to buy material, supplies, and services needed in the rendering of the service of ocean transportation to the armed forces. The appropriation advances were replaced by a working capital of 100 million dollars which has since been reduced to 41 million dollars. Under the revolving fund concept, the working capital is reimbursed by the armed

¹⁴ U.S., Dept. of Defense, Secretary of Defense, Charter for the Operation of the Military Sea Transportation Service, Under the Navy Industrial Fund, dated 7 May, 1951.

forces from their annual appropriations for services rendered by MSTS, normally within two months after these services are received. This type of fiscal operation enabled the agency to simplify its financial structure and made it possible to operate on a basis comparable to private enterprise. The advantages of this method of financing include the following:

1. More effective means of determining costs of goods and services as a basis for billing "customers".
2. More effective and flexible means for financing, budgeting, and accounting for operations.
3. Greater sense of responsibility and restraint in the ordering of goods and services based on the availability of funds.
4. More direct and rapid control over the number of support activities and the number and type of ships to be operated.
5. More complete establishment of a consumption-type budget and accounting structure, in consonance with which the cost of goods and services furnished by the activity may be budgeted and accounted for under the program or function for which it has an end use.
6. Responsiveness to emergency situations. ¹⁵

Since 1952, the agency has published predetermined tariffs for use in billing customers for point-to-point lift movements. Normally, these tariffs are effective for one year from the time of publication. They are composite rates and bear no relationship to the method of shipment (nucleus or commercial vessel) except for passenger movements which are levied according to the type of transportation provided. They are

¹⁵ U.S., Dept. of the Navy, Bureau of Naval Personnel, Financial Management in the Navy, NAVPERS 10792, (Washington, D.C.: U.S. Government Printing Office 1956, pp. 148-149.

designed to generate income equal to expense and have been kept simple and equitable to all customers. Cargo classifications are few in contrast to commercial classifications. While the agency provides point-to-point service from anywhere to anyplace, tariffs are computed on an area-to-area basis covering all possible routing combinations. Only petroleum lifts follow the commercial practice of point-to-point billing. In theory, MSTS attempts to operate on a no-profit basis, recovering its actual costs. Attainment of an exact break-even point would, of course, be a practical impossibility, so adjustments to tariffs are made to match revenues and expenses as closely as possible. These adjustments, however, are made only when significant variations between income and expense exist, insignificant profits or losses being carried over to the next fiscal year. It is appropriate to note that the variance between income and expense from 1957 to 1961 never varied more than 1.5 percent, and in the aggregate, only .2 percent.¹⁶

Legislative Influences

The cornerstone of our national policy with respect to ocean transportation is the Merchant Marine Act of 1936. Title I of this act provides, in part, that the interests of national defense and the development of our foreign and domestic commerce require that the United States shall have a merchant marine (1) sufficient to carry its domestic waterborne commerce and a substantial portion of the export and import foreign commerce of the United States and to provide service on all essential routes, (2) capable of serving as a naval and military auxiliary in time of war or national emergency, (3) owned by the citizens of the United States and operated under our flag,

insofar as practicable, and (4) composed of the best equipped, safest, and most suitable types of vessels, constructed in the United States. The Act further declares that it is public policy to foster the development and encourage the maintenance of such a merchant marine. This clearly emphasizes that the character of our merchant marine shall be privately owned and operated by U. S. citizens, supported if necessary, by public subsidy.

On various occasions, the operations of the Military Sea Transportation Service have been criticized as being competitive with the privately owned American merchant fleet. Congressional interest in this matter has resulted in extensive hearings conducted by both the House and Senate, and in legislation designed to insure government owned ships are retained in service and utilized only as necessary to carry out the mission of the agency, and not to deprive private American shipping of military cargoes within its capability. Public Laws 664 and 665, 83rd Congress, require that at least 50 percent of government generated or financed cargo must be carried in privately owned U. S. flag ships. Public Law 664, in particular, has had a direct effect on the profile of the government controlled shipping since it applies to all government sponsored cargo including that of the Department of Defense. Section 633 of the Appropriations Act of 1962 similarly affects passenger operations by requiring that ... "not less than 7.5 million dollars in this act for the travel expenses in connection with temporary duty or permanent change of station of civilian or military personnel of the Department of Defense shall be available only for the procurement of commercial passenger sea transportation services on American Flag vessels."

Another outgrowth of Congressional pressure to support the American merchant marine in all possible ways, was the memorandum agreement of August, 1954, between the Secretary of Defense and the Secretary of Commerce. This agreement iterated the need for the Military Sea Transportation Service and established, among other things, the order of priority in which shipping was to be acquired beyond the capability of the MSTS nucleus fleet. Under the provisions of this agreement, commercial shipping is procured in the following order of priority:

1. Maximum utilization of available U.S. Flag berth space.
2. Time or voyage charter of suitable privately owned U. S. Flag merchant ships voluntarily made available by industry. Such charters are kept to the minimum necessary to meet the requirements which can not be met by the berth operators.
3. Shipping provided by the National Shipping Authority under General Agency Agreement.
4. Foreign flag vessels, but only for urgent requirements which can not be met by U. S. flag ships.

Summary

The Military Sea Transportation Service is the natural descendent of the Army Transport Service and the Naval Transportation Service. It was conceived in an atmosphere of economy and efficiency as a peace-time mechanism triggered for national emergencies. Unique in organization and composition, MST is an operating unit of the fleet designed primarily to carry out the function of ocean transportation in a commercial manner. The agency supplements, rather than competes with the American merchant marine, operating within the framework prescribed by the Congress. Its scope of operations is directly related to the operating requirements of the armed forces. It has been tested in the "crucible of war" and has lived up to expectations not only as an arm of the naval forces but also as a tool of foreign policy.

CHAPTER II

ORGANIZATION FOR OCEAN TRANSPORTATION

The preceding chapter provided the backdrop for the financial management of government controlled shipping by presenting an overview of the mission, the scope, and the nature of the operations of the Military Sea Transportation Service. How is the Commander organized to carry out his responsibilities? Where does the Comptroller fit in his organization and how is he organized to best serve the interest of command? This chapter addresses itself to these questions.

The Commander and His Immediate Staff

The Military Sea Transportation Service is the sole agency of the Department of Defense for ocean transportation. The broad responsibility for carrying out this function rests with the Secretary of the Navy.¹⁷ In discharging his responsibility, he assigned the agency to the command of the Chief of Naval Operations who was given the responsibility for its operation and administration, except for matters relating to procurement.¹⁸ The procurement function was assigned to the Assistant Secretary of the Navy (Material).¹⁹ The instructions which delineate the basic authority, functions, and responsibilities of the Commander of the Military Sea Transportation Service state that he shall act for the Chief of Naval Operations or the Assistant Secretary of the Navy in discharging their respective responsibilities in connection with ocean transportation to

¹⁷ U.S., Dept. of Defense, Single Manager Service Assignment for Ocean Transportation, DOD Instruction 5160.10 dated 28 May, 1956.

¹⁸ U.S. Department of the Navy, Secretary of the Navy Directive, SECNAV Instruction 5430.11A of 6 July, 1956.

¹⁹ Now the Assistant Secretary (Supply and Logistics).

respective responsibilities in connection with ocean transportation to the Secretary of the Navy and the Secretary of Defense.²⁰ These command relationships are illustrated in PLATE III. The Commander's mission is "To command the Military Sea Transportation Service, ashore and afloat, world-wide; acquire and employ ocean shipping and shipping space, and establish and maintain supporting facilities as required for accomplishment of the MSTS mission."²¹ He functions in the plans, policies, and procedures areas, having delegated the control of the nucleus fleet (except tankers) to his area commanders. His duties briefly stated include:

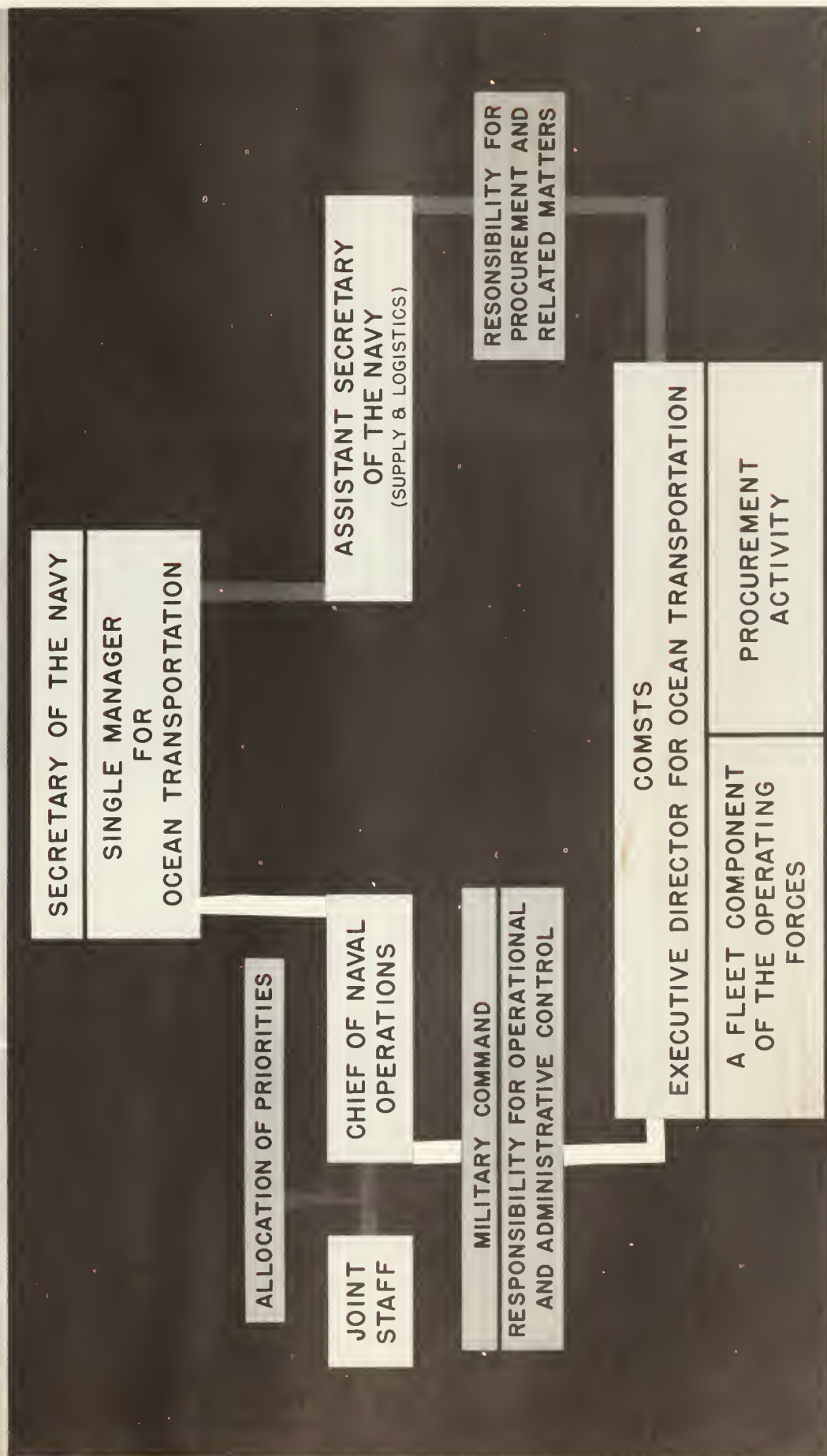
1. Controlling the operations of the Military Sea Transportation Service. This includes the functions of planning, training, research and development, financial management, logistic support, and maintenance and repair of ships.
2. Maintaining an adequate system for the flow of lift requirements from the shipper services to the agency.
3. Employing the nucleus fleet and procuring commercial shipping as necessary to meet the needs of the shipper service.
4. Preparing recommendations for the design, specifications, and equipment of ships of the nucleus fleet.
5. Collaborating with other government agencies in the improvement and standardization of the control of sea transport operations.
6. Administering priorities for sea transportation in accordance with the policies and procedures established by the Joint Military Transportation Committee.

²⁰ U.S., Dept. of the Navy, Chief of Naval Operations, Military Sea Transportation Service - Directive, OPNAV 5440.203 dated 9 August, 1956.

²¹ Ibid.

MSTS IS A MAJOR COMPONENT OF THE U.S. NAVY

AND THE SINGLE MANAGER OPERATING AGENCY FOR OCEAN TRANSPORTATION



7. Maintaining membership on committees concerned with maritime matters.
8. Advising the Chief of Naval Operations on the status of all maritime matters which have military application or implication.

The Commander is assisted in the performance of his duties by a Deputy Commander and Chief of Staff, a Commercial Shipping Advisor, and an Inspector General.

The Deputy Commander and Chief of Staff performs two basic functions. He assists the Commander in the fulfillment of his responsibilities, acting in his behalf as directed. As Chief of Staff, he coordinates and supervises the activities of the headquarters and matters relating to other commands and agencies. His immediate staff includes an administrative assistant, a legislative liaison officer who maintains contact with the Congress and other government agencies on legislative matters of interest to the Military Sea Transportation Service and coordinates such matters with the headquarters staff, a public information officer, and liaison officers from the Air Force, Army, and Marine Corps.

The Commercial Shipping Advisor's mission is to keep the Commander fully informed on all matters regarding the relationships between the Military Sea Transportation Service and the maritime industry. He advises on such matters as the utilization of the merchant marine, and the employment and efficient operations of its ships, including the manning, utilization, acquisition, and application of merchant vessels. He participates in the overall planning of the Military Sea Transportation

Service and is a permanent member of the contract advisory board.

The Inspector General assists the Commander in attaining the highest possible degree of efficiency and economy in organization, administration, and operation throughout the global organization of the Military Sea Transportation Service. He maintains liaison with agencies of the Department of Defense and other government agencies performing similar functions. Through periodic inspections, he determines the degree of effectiveness and recommends action to improve operations.

The Functional Organization

The original organization of the Office of the Commander was planned and developed after a study of the organizational structures of the Army Transport Service and the Naval Transportation Service. After three years of operation under changing conditions and expanding responsibilities, the need for a revised organization was evident. In developing the new structure, certain fundamental principles were adhered to. Every function involved in the mission of the organization was assigned as a primary responsibility to a specific organizational component. The authority essential to carrying out the function was then placed in the hands of the responsible supervisor. The responsibilities of the head of each functional component were clearly defined down to the section level. In prescribing these responsibilities, however, it was clearly pointed out that the operation of the informal organization was not to be restricted.

Initiative - the exercise of originating action by an individual -- is encouraged when properly coordinated with other cognizant staff personnel in conformance with prescribed procedures and instructions, so that the maximum experience and knowledge of all staff members concerned may be applied to a particular task.²²

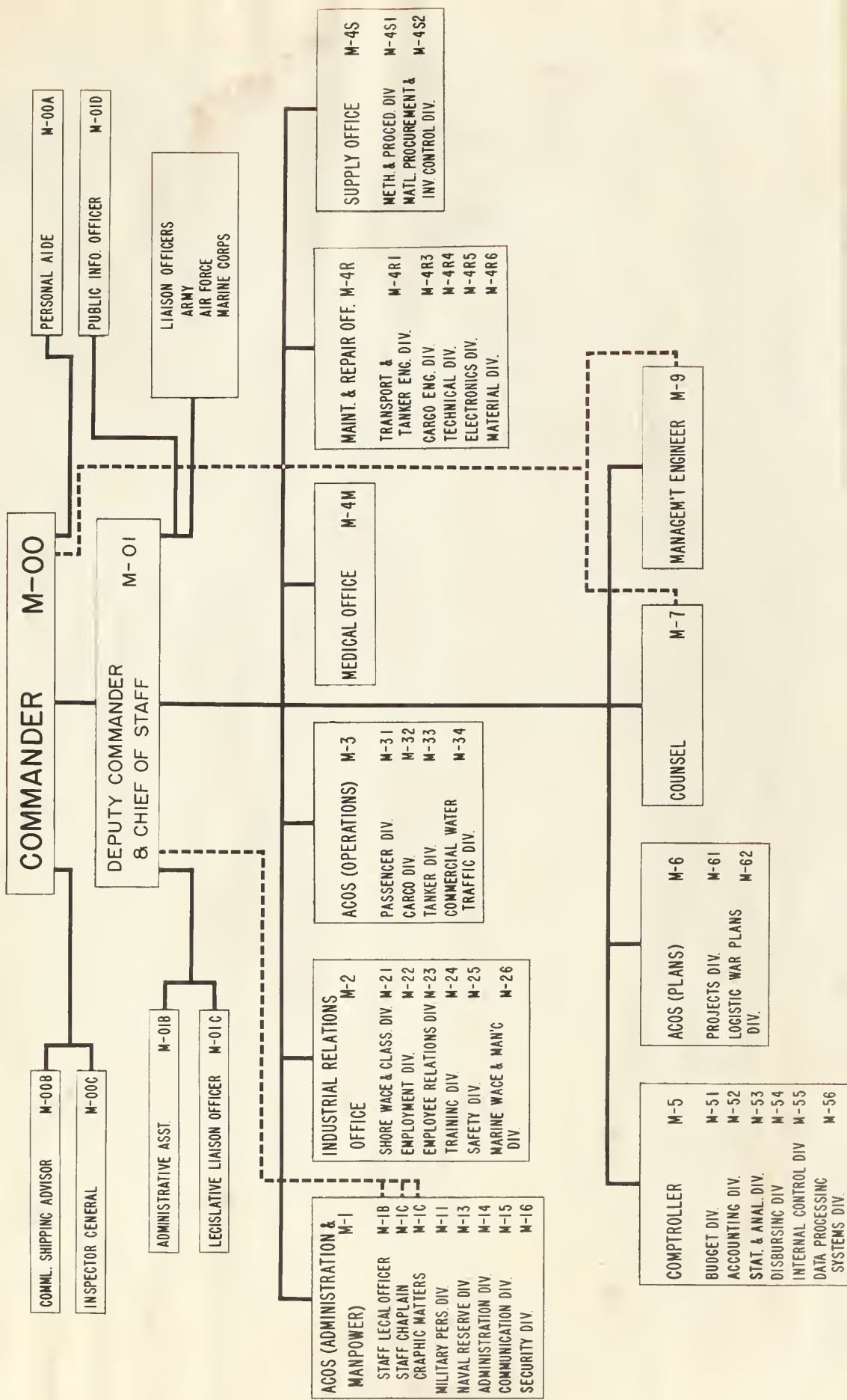
Channels of command and supervision were highlighted to insure that they would not be violated by staff members. Span of control was limited to the member of personnel that could be effectively coordinated and directed. Caution was exercised to insure that no member of the organization would report to more than one supervisor with respect to his primary duty. Finally, decentralized control was incorporated to the extent possible, so long as it did not hamper the standardization of procedures or infringe on the Commander's prerogative of policy control. The resulting organizational structure has stood the test of time with only minor changes necessary. The current organization is illustrated in PLATE IV.

The Assistant Chief of Staff (Administration and Manpower): The Chief of Staff is responsible for five important functions: organizational planning, office management, military personnel administration, manpower requirements, and communications. He carries out these functions in a line capacity at the headquarters as well as at subordinate command level. His goal is to increase productivity throughout the world-wide organization by more effectively utilizing military personnel and facilities, by applying improved management techniques, and by improving organizational structure. At the headquarters, he is actively engaged in attaining this

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objective, by supervising and controlling all budget accounts related to his functions. The direction and control of the field activities is implemented largely through the issuance of policies and procedures, the review of field requests for additional personnel and facilities, and the use of the services of the Inspector General. He is responsible for security and for formulating communications plans and policies; supervising related operating procedures throughout the world-wide organization. In conjunction with the Industrial Relations Officer, he determines the military and civilian manpower needed to support current as well as mobilization objectives. He is responsible for the training of active military personnel and also inactive personnel in the MSTS sponsored reserve programs. He maintains liaison with the Navy Department and other government departments in all matters relating to his functions, and in this connection, represents the Commander at all meetings. To assist him in carrying out his duties, he has an immediate staff consisting of an assistant for administration and manpower, a chaplain, a legal officer, and an assistant for Graphic Matters. The assistant for administration and manpower has control over five directors who are responsible for the implementation of the major functions.

The Assistant Chief of Staff (Operations): This officer directs the operation of all ships of the nucleus fleet and all other ships or space acquired by the Military Sea Transportation Service. He adjusts lift capability to meet the lift requirements of the shipper services and develops plans designed to meet these requirements. He is responsible for the development of standards relating to ship performance, including its crews,

and for measuring actual performance against these standards. All commercial shipping, except berth term shipments, is procured by personnel within his organization. He is responsible for operational readiness of government controlled shipping. While he exercises control of passenger and cargo vessels through the offices of the subordinate commanders, he directly controls the operation of all tankers. Tanker operations are controlled centrally because of the peculiar world-wide nature of the employment of tankers in their constant shifting from one area to another, and since lift requirements are received from the Armed Services Petroleum Agency in Washington. His goal is to employ the forces afloat effectively, safely, and economically while satisfying the lift requirements of the armed forces. He represents the Commander in matters pertaining to ship operations, and is assisted in the performance of his duties by special assistants in the areas of planning and policy formulation, special project requirements, intelligence, merchant marine matters, research and development, and by four division directors, each controlling one of the major types of services provided by MSTs, i.e., passenger operations, cargo operation, tanker operations, and commercial water traffic.

Assistant Chief of Staff (Plans): This officer formulates the long range and special planning necessary to fulfill the agency's mission in peace or in war. He provides liaison with all government agencies and the maritime industry in matters affecting his objective.

Other Staff Officers: Rounding out the first level of the organization, we find the Maintenance and Repair Officer who is responsible for the material readiness of the government controlled ships; the Medical Officer

who implements policies and procedures for providing adequate medical services for the protection of the health of passengers and crew; the Supply Officer who insures that optimum supply support and service is provided to the agency and who maintains inventory control over material and repair parts peculiar to MSTB ships; the Counsel; the Industrial Relations Officer; and the Comptroller.

The Office of the Comptroller

The term "function" as used in organization, and especially in the field of accounting or comptrollership, is defined as "A task or group of tasks requiring unique capabilities or abilities."²³ What is the function of comptrollership? The best known and most nearly authoritative reply to this question is found in the official concept of controllership as developed by the Controllers' Institute of America. In the Department of Defense, the concept is established by law.²⁴ In both military and commercial organizations, however, the function of comptrollership and how it should be executed is largely a reflection of top management's own conception of what it should be.

In the Military Sea Transportation Service, comptrollership includes those tasks which relate to budgeting, establishing tariffs, accounting, statistical and financial reporting, disbursing, internal control, auditing, protecting assets, automatic electronic data processing, and last but most important, providing the Commander with interpreted financial data which he needs for planning, policy formulation, and control of operations. Efficiency, economy, and control are the Comptroller's bywords.

²³ David R. Anderson and Leo A. Schmidt, Practical Controllership, Rev. ed.; Homewood, Illinois, Richard D. Irwin, 1961) p. 14.

²⁴ U.S., Congress, National Security Act Amendments of 1949, Public Law 216, 81st Cong., 10 August, 1949, TITLE IV, Sec. 401.

The Comptroller - The agency's comptroller is a Navy Supply Corps officer with the rank of Captain. He is assisted by a civilian deputy in the discharge of his comptrollership duties, and by three naval officer assistants who act in a planning and staff capacity. His duties include a combination of line and staff responsibilities. As the head of The Office of the Comptroller, he must organize a team of civilian specialists trained in the various tasks of comptrollership, and must coordinate their actions toward the goals prescribed by the Commander. In his capacity, he is responsible for the establishment of policies relating to the comptrollership function consistent with the policies of the Department of Defense and the Department of the Navy; the supervision of operations within his organization; developing budgeting, accounting, statistical and financial reports and procedures; exercising technical control over field comptrollers; analyzing and interpreting financial and statistical data; and establishing trends and evaluating their effect on operations.

In a staff capacity, the Comptroller is responsible for advising the Commander and his staff on financial matters; providing technical assistance to area and sub-area commands; maintaining liaison with the Department of Defense, the military services, and other government agencies relative to financial management matters; establishing and coordinating a command-wide review and analysis program designed to measure performance and the utilization of resources; and promptly informing the Commander on operations or planned actions that appear uneconomical, inefficient, or unnecessary.

The Office of the Comptroller is organized along functional lines. It is composed of six operating divisions under the supervision of the civilian deputy. Each division director is responsible for a major element of the function of comptrollership. Work crossing organizational lines is assigned and coordinated by the Deputy who acts as a buffer or catalyst, as necessary to insure accurate and consistent performance. He also reviews legislation, correspondence, policies, etc., from higher authority to determine their effect on the financial operations of the Military Sea Transportation Service, recommending proposed courses of action to the Comptroller.

The Director, Budget Division - The Director of the Budget Division is the financial planner of the organization. He is responsible for budget formulation and execution within the policies prescribed by the Comptroller and higher authority. His duties include the issuing of instructions and premises for the preparation of the planning and operating budgets; initiating the call for estimates; coordinating the formulation process, analysing estimates, recommending tariff adjustments and revisions to the budget estimates to the Comptroller, and preparing consolidated budget statements. He presents the budgets to the Comptroller of the Navy, The Department of Defense, and the Bureau of the Budget. He establishes budgetary controls and administers the budget after its approval by higher authority. He is assisted in performing his duties by an assistant director.

The Budget Division is composed of the Nucleus Ship and Overhead Budget Branch and the Contract Shipping Budget and Tariff Branch. The former

organizational unit performs financial planning with respect to the operation of the nucleus fleet and the support of the shore establishment. The Contract Shipping Budget and Tariffs Branch analyzes ocean transportation requirements, and develops budget estimates for lifts to be transported commercially. It also establishes and maintains tariffs, requests and distributes appropriated funds which are received by the Agency, reporting the status of these allotments to the allotting bureaus.

Director, Accounting Division - This officer is the financial historian of the organization. He is responsible for developing and implementing accounting policies and procedures within the framework established by The Comptroller of the Navy. His duties consist of reviewing and analyzing financial statements and related reports originating within the agency; maintaining the official accounting records; preparing consolidated statements and related reports issued to higher authority; and rendering professional opinions and decisions on all accounting matters. He represents the Commander on all accounting matters with the Comptroller of the Navy, the Department of Defense, and other government agencies. He is assisted in discharging his responsibilities by an assistant director who also coordinates the actions of the organizational components of the Accounting Division. Three branches report to the Director: (1) the General Accounting Branch, which prepares and processes all accounting transactions, maintains the accounting records, and prepares financial reports for the headquarters; (2) the Payables Branch, which verifies and processes for payment all invoices received at the headquarters, and maintains adequate control of accrued

expenses; and (3) the Review and Consolidation Branch, which performs the task of reviewing all accounts at the headquarters and related financial reports received from the area and sub-area commanders, and prepares consolidated statements reflecting the financial status of the Military Sea Transportation Service.

Director, Statistics and Analysis Division - This officer maintains the management dials of the organization. He is responsible for formulating and administering the statistical reporting system and the statistical and cost analysis programs. He develops and maintains a reporting system designed to provide the data necessary for evaluating performance. The nature of his duties requires an extensive use of the informal organization, since he often must cross organizational lines to accomplish his mission. He has an assistant director and two branches within his division. The Analyzes Branch interprets control reports and performs whatever research is necessary to highlight problem areas, and also operates the reports control system of the Office of the Comptroller. The Statistics Branch consists of two sections: (1) the Statistics and Billing Section, which reviews, evaluates, and distributes statistical data extracted from billings; and (2) the Utilization and Special Reports Section, which obtains, processes, and compiles ship utilization and performance data in order to determine the degree of effectiveness in the utilization of the Nucleus Fleet, both as to time and space.

Director, Disbursing Division - This director is the only naval officer at the division level. He is responsible for all disbursing functions

at the headquarters and assists the area and sub-area commanders in disbursing matters. Within the policy guidance of the Comptroller of the Navy, he formulates and implements special procedures required by the unique disbursing operation of the Military Sea Transportation Service. His division is composed of two Branches: (1) the Cash Records Branch, whose primary function is to record all cash transactions and prepare related disbursing reports; and (2) the Voucher's Branch, which examines and processes all public vouchers and travel claims for payment. He is aided in the execution of his duties by an assistant director.

Director, Internal Control Division - This officer develops management controls and conducts reviews at the headquarters and at the subordinate commands to insure conformance with the established policies and procedures relating to procurement, budgeting, accounting, statistical reporting and analysis, disbursing, and reporting. He checks controls at all levels of management; organizational structure, procedures, accuracy of records, and provides the means through which the Comptroller can be assured that the tasks of financial management are being performed effectively and in accordance with his instructions. He is also responsible for auditing non-appropriated funds held by the subordinate commands, as well as evaluating and interpreting audits of MSTC activities that are held by the Comptroller of the Navy, and the General Accounting office.

Director, Data Processing Systems Division - This officer develops, implements, and administers an integrated automatic data processing system. He advises and assists the subordinate commands in all matters

pertaining to the utilization of automatic data processing equipment. His division includes an assistant director and two branches -- the Systems Analysis Branch and the Data Processing Branch. The former is responsible for the evaluation of data processing requirements. It conducts surveys of major functional areas, programs, and operations from the perspective of designing and developing a mechanized system suitable to the needs of management and the operators. The Data Processing Branch is primarily a service organization designed to mechanically process financial and statistical data for the headquarters.

The Field Organization

It was previously stated that the field organization of the Military Sea Transportation Service is positioned where it can best serve the needs of the shipper services. There are four major operational areas:

Commander, Military Sea Transportation Service, Far East Area --

This Commander, who is headquartered at Yokohama, Japan, has under his control the MSTS offices at Sasebo, Taipei, Manila, Pusan, Inchon, and Okinawa.

Commander, Military Sea Transportation Service, Pacific Area --

This Commander is headquartered at San Francisco. He controls the MSTS Offices at Guam, Long Beach, Honolulu, and Seattle, as well as all nucleus ships in the Pacific Fleet (except tankers).

Commander, Military Sea Transportation Service, Atlantic Area --

This Commander controls the MSTS Gulf Sub-Area and its component offices at Houston and Mobile, as well as the MSTS offices at Balboa, Cocoa Beach, Newfoundland, Norfolk, and San Juan. The Commander also has under his direct operational control all nucleus ships assigned to the Atlantic Fleet (except tankers). He is headquartered at New York City.

Commander, Military Sea Transportation Service, Eastern Atlantic and Mediterranean:--This Commander is located in London, England. He controls the Mediterranean Sub Area Commander at Leghorn, Italy, and his component offices at Casablanca and Naples, as well as the MSTS offices at Bremerhaven and La Rochelle.

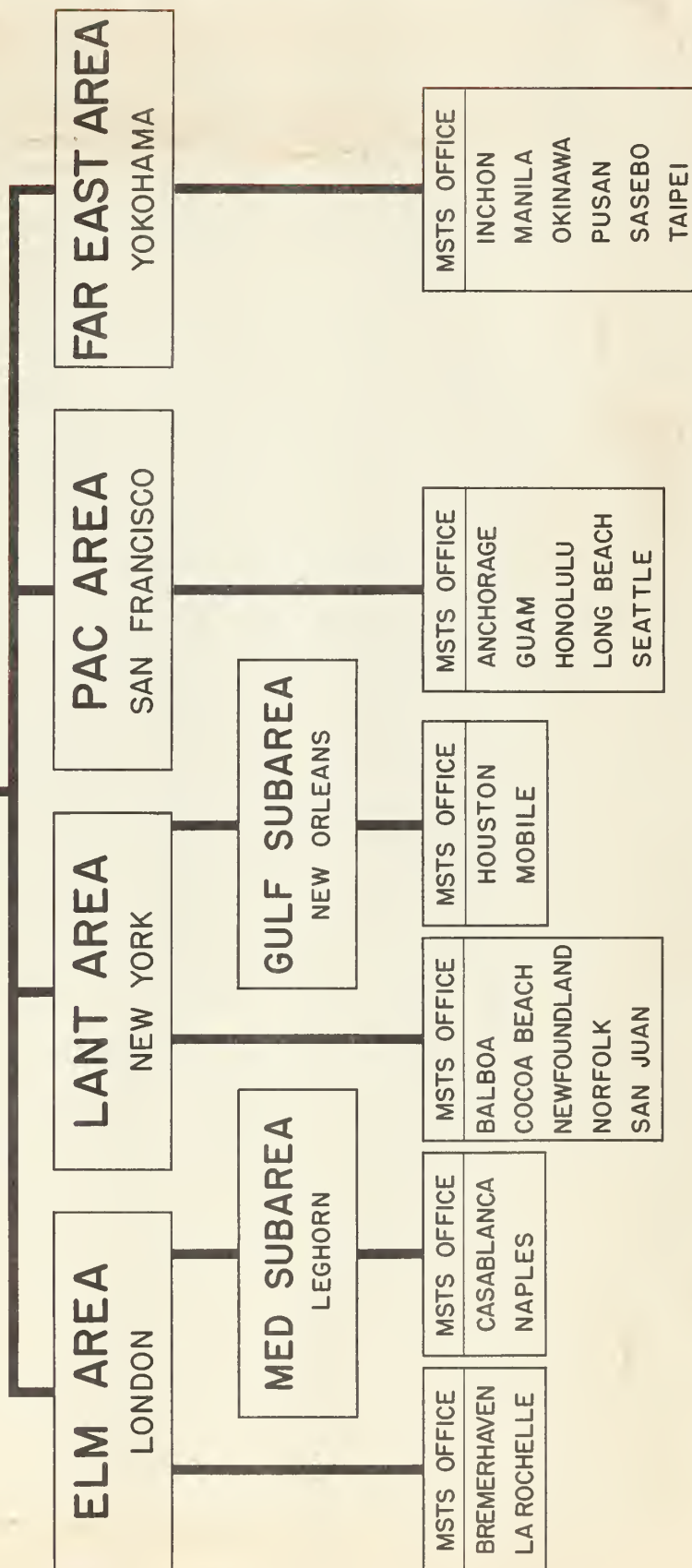
The organizational structure at each area command is generally patterned after the organization of the Office of the Commander. The major differences that do exist are caused by the fact that emphasis in the field is placed on operations rather than on the broad planning function carried on by the headquarters. From the standpoint of financial management, the organization is structured functionally. While the field comptroller's organization is generally similar to that of the Office of the Comptroller, it varies according to the functions assigned to the Area Commander and to the degree to which common services are received from other naval activities.

The Command Organization of the global complex is illustrated in PLATE V. It would appear that the entire organization is built on a foundation of field offices. While it is the smallest organizational element, the MSTS office is the connecting link between the nucleus fleet and the shipper services. It is the point where reputations are made or broken; where economy is either achieved or lost. These offices are staffed with from one to thirty people. The commanding officer exercises local operational control of nucleus ships while they are in port, provides them with whatever support is required, and assists ship turnaround. Rapid expansion or contraction is a design feature of these offices. Size and location may

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**COMMANDER
MSTS**
WASHINGTON, D.C.



contract.

When, however, the subject is treated in detail, it is found that the various methods of treatment are not equally effective, and that the results are often very different. It is therefore necessary to consider the various methods of treatment, and to compare the results of each with those of the others.

—Continued—

CHAPTER III

THE ACCOUNTING SYSTEM IN BRIEF

Major Legislative Influences

On October 28, 1948, the Comptroller General announced the beginning of a joint program for improving accounting in the Federal Government. The announcement culminated a series of discussions between the Director of the Bureau of the Budget, the Secretary of the Treasury, the Comptroller General, and members of the staff of the Senate Committee on Government Operations. The basic goal of the program was to improve financial management practices throughout government in a way which would satisfy the management needs of the Executive and Legislative Branches. It contemplated the development of a sound accounting system within each agency, sufficiently flexible to serve the head of the agency, but designed so that it would be compatible with the overall accounting system of the Federal Government. The program was to be implemented through the efforts of the three agencies, in cooperation with the administrative agencies and the Congress. Some of the recommendations made by this joint committee have initiated important legislation -- legislation which has given direction to federal accounting.²⁵

The Budget and Accounting Procedures Act of 1950 is one of these.²⁶ It sets forth, among other things, a statement of public policy as to the

²⁵ U.S. Senate, Financial Management in the Federal Government, Senate Document No. 11, 87th Cong., 1st Sess., p. 40.

²⁶ U.S. Congress, Budget and Accounting Procedures Act of 1950, Public Law 784, 64 STAT. 832, 81st Cong.

purposes that accounting and auditing should serve in government, and reflects the "congressional intent that the needs and responsibilities of both the Executive and Legislative Branches be fully considered in the establishment of accounting and reporting systems and requirements." 27

The statement of policy provides for the following:

1. Full disclosure of results of financial operations, adequate financial data for operating and budgetary purposes, and control over receipts, expenditures, funds, property, and other assets.
2. Full consideration of the management needs of the Executive and Legislative branches in the establishment of accounting and reporting systems.
3. The maintenance of accounting systems and preparation of financial reports as a responsibility of the Executive branch.
4. That auditing by the Comptroller General should be directed toward determining the extent to which accounting and financial reporting were fulfilling the purposes prescribed by law, regulation, or with legal requirement; maintain an effective basis for the settlement of accounts.
5. Simplified and more effective accounting, reporting, budgeting, and auditing procedures and the elimination of duplication.
6. An endorsement of the joint program by declaring that a continuous program for the improvement of accounting and financial reporting should be conducted by the Comptroller General, Secretary of the Treasury, and the Director of the Budget.

The Act recognizes accounting as an operating tool by providing that the head of each agency establish and maintain systems of accounting and internal control in conformity with the principles, standards, and related requirements prescribed by the Comptroller General.

Another significant piece of legislation, limited in scope to the armed forces, is Title IV of the National Security Act amendment of 1949.²⁸ Title IV provides for the reorganization of fiscal management in the Department of Defense in order to promote efficiency and economy. From the accounting point of view, it calls for the establishment of uniform terminologies, classifications, reporting systems, and accounting and internal audit projects. It authorizes the establishment of working capital funds.

A third modern legislative influence in accounting is provided by Public Law 84-863.²⁹ This act directs each agency to take whatever action is necessary to achieve consistency in accounting and budget classifications, to synchronize these classifications with the organizational structure, and to support budget estimates on the basis of cost and performance. It also authorizes the use of an accrual accounting system.

It can be seen from the foregoing that the objectives of accounting in the eyes of the Congress, are to provide:

1. A media for effective control over expenditures and promoting control over and reduction of costs.
2. A source of reliable fiscal data to serve as a basis for and support of budget requests.
3. A working arm of management which can be used to measure performance and effectiveness at each level of responsibility.
4. Accountability for assets and the assurance of the proper discharge of this responsibility.
5. A financial communications system which will, through full disclosure, satisfy the needs of the executive and legislative branches of the government.

²⁸ U.S. Congress, National Security Act Amendments of 1949, Public Law 216, 81st Cong., 10 August, 1949, TITLE IV.

²⁹ U.S. Congress, Cost Based Budgets and Accrual Accounting, Public Law 863, 70 STAT. 782, 84th Cong.

The General Accounting Plan

It was stated previously that the Military Sea Transportation Service is financed through the Navy Industrial Fund. The Secretary of Defense's Instructions relative to fund accounting prescribe that each commercial type activity shall have a "custom built" cost accounting system designed within the legislative framework previously described; a system that will adequately account for the stewardship of the activity and provide the necessary safeguards for the protection of the integrity of the working capital. Each system must have the means of providing the basis for the determination of cost per unit produced or per service rendered to the extent required for equitable billing. Data must be accumulated on production or service costs by category or type of cost so that cost effectiveness can be measured against standards or the estimates of the appropriate cost control center, and variances analysed for cause. If the type of production or services rendered is suited to the use of fixed prices or rate schedules for the work performed, then such standard prices must be developed on the basis of cost and must include allowances for losses, contingencies, and variances in order to protect the integrity of the working capital. Cost standards that are developed, however, must be sufficiently conservative so as to require real efforts to meet them, and must be based only on those costs which are expected to be incurred.³⁰

The accounting system of the Military Sea Transportation Service is pointed towards the Congressional objectives. It incorporates the principles and standards of the Comptroller General and the Department of

³⁰ U.S. Dept. of Defense, Financial Reports for Department of Defense Industrial Funds, DOD Instruction 7410.5 dated 28 July, 1959.

THE PROPOSED AMENDMENTS

It is the purpose of this report to present the results of the

work done during the past several years. The committee has been
convinced that it is essential to have a "national body" which
will be able to coordinate the various activities of the
various departments of the Government and to make the necessary
arrangements for the carrying out of the various projects.

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Defense's criteria for fund accounting. The system is patterned, for the most part, after the accounting systems used by commercial shipping companies, modified as necessary, to insure the unique aspects of the MSTS operation are fully disclosed. Emphasis is placed on management's need for information, rather than on accounting as an end in itself. A double entry system of accounting is employed and data is accumulated on an accrual basis.³¹

Those accounting functions which are not peculiar to ocean transportation are carried out in accordance with the policies and instructions issued by the Comptroller of the Navy. These instructions are set forth in the Navy Comptroller's Manual. For the most part, they pertain to fidelity accounting, property accounting, and those common elements of fund accounting. "Custom Built" procedures are published in the Navy Industrial Fund Handbook for the Military Sea Transportation Service, NAVEXOS P-1280. These instructions, while approved by the Comptroller of the Navy, are originated by the Comptroller of the Military Sea Transportation Service. The requisites which provide the framework for the development of these tailored instructions include a consideration of organization and personnel, the needs of management, the provisions of law, the provisions of internal control, the functions of ocean transportation, and the principle that all data accumulated must be in a form which is suitable for integration with the records of the Comptroller of the Navy and the Treasurer of the United States. From the accounting standpoint, NAVEXOS P-1280, sets forth the chart of accounts, including the description and use of each account, the accounting records and books of original entry which are to be maintained, the methods of accumulating costs, and instructions pertaining to the preparation and submission of financial reports.

Account Classifications

The accounts maintained by the agency include balance sheet accounts, revenue and expense accounts, and accrued receipt or expenditure accounts. An intra MSTS clearing account is also maintained for the purpose of accumulating and reporting expenses incurred by one area commander for the account of another. The accounts are identified by a four digit numeric code. The first two digits identify the type and major classification of the account, while the last two provide a more detailed sub-classification. From example:

CLASSIFICATION
Expense Account
Nucleus Ships
Port Charges

ACCOUNT 5153

The revenue and expense accounts are designed to accumulate data by type of income or expense, by type of service, and in some cases, by individual job. When coupled with the activity's or ship's accounting number, they provide the financial data needed for budgeting, budgetary control, pricing, and cost control. The balance sheet account sub-classifications, on the other hand, provide a detailed description of the financial status of the Military Sea Transportation Service. The major account classifications utilized are illustrated in TABLE 1 while TABLE 2 explodes one major classification into its component accounts.

TABLE 1. Major Account Classifications of the Military Sea Transportation Service's Accounting System.

Balance Sheet Accounts

1000 Asset Accounts	2000 Liability Accounts
1100 Cash	2100 Accounts Payable
1200 Accounts Receivable	2200 Accrued Liabilities
1300 Inventories	2300 Cash Advances Received
1400 Cash Advances	2400 Unterminated Voyages
1500 Deferred Charges	2900 Reserves
1900 Intra-MSTS Clearing Accounts	3000 Corpus Accounts

Income and Expense Accounts

4000 Income Accounts	5000 Expense Accounts
4100 Cargo Ships Revenue	5100 MSTS Nucleus Ship Expense
4200 Passenger Ships Revenue	5200 Charter and Ships Contract Expense
4300 Petroleum Ships Revenue	5300 Overhead Expense
4400 Special Project Ships Revenue	5400 Non Tariff Operations Expense
4500 Non Operating Income	
4600 Non Tariff Operations Income	

Source: NAVEXOS P-1280, NAVY INDUSTRIAL FUND HANDBOOK FOR THE MILITARY SEA TRANSPORTATION SERVICE: Chapter 03.

TABLE 2. Major Account Classification 5200, Charter and Ships Contract Expense and its component accounts.

Account 5200
Charter and Ships Contracts

<u>Type Shipping</u>	<u>Account Number</u>	<u>Description</u>
Cargo	5202	Time Charter
	5203	Voyage Charter
	5204	Shipping Contracts
	5205	Berth Term Shipments
	5206	LST Contracts
	5207	National Shipping Agency Agreements
	5208	U. S. Fleet
Passenger	5212	Time Charter
	5213	Voyage Charter
	5214	Shipping Contracts
	5217	National Shipping Agree- ments
	5218	U. S. Fleet
Petroleum	5222	Time Charter
	5223	Voyage Charter
	5224	Contract Operations-Tanker
	5225	Shipping Contracts
	5226	Long Term Consecutive Voyage Charters
	5227	National Shipping Agency Agreements
	5228	U. S. Fleet

Source: NAVEKOS P-1280 NAVY INDUSTRIAL FUND HANDBOOK FOR THE MILITARY
SEA TRANSPORTATION SERVICE: Chapter 03, para. 030105.

Table 10: Summary of the results of the regression analysis

Variable	Parameter	Estimate	Standard Error	t-Statistic	Prob > t
Intercept		1.000	0.000	1.000	0.000
Age		0.000	0.000	0.000	1.000
Gender		0.000	0.000	0.000	1.000
Married		0.000	0.000	0.000	1.000
Education		0.000	0.000	0.000	1.000
Income		0.000	0.000	0.000	1.000
Health		0.000	0.000	0.000	1.000
Religion		0.000	0.000	0.000	1.000
Region		0.000	0.000	0.000	1.000
Constant		1.000	0.000	1.000	0.000
Age		0.000	0.000	0.000	1.000
Gender		0.000	0.000	0.000	1.000
Married		0.000	0.000	0.000	1.000
Education		0.000	0.000	0.000	1.000
Income		0.000	0.000	0.000	1.000
Health		0.000	0.000	0.000	1.000
Religion		0.000	0.000	0.000	1.000
Region		0.000	0.000	0.000	1.000
Constant		1.000	0.000	1.000	0.000

Source: Author's calculation based on the data of the survey
 The dependent variable is the probability of being employed

Accumulation of Costs and Income

While the accounting system is similar to those used by commercial shipping companies, it differs in one major area. Most private companies segregate all income and expense by the individual voyages of each ship, thus rendering a profit and loss statement for each trip. "Voyage Accounting", as this method is called, is a valuable tool in determining profitability by ship or route, and in evaluating the profitability of ships schedule. The Military Sea Transportation Service, however, uses a more simplified system, incorporating some of the thinking behind "voyage accounting", by matching income and expense by ship, and by month.

All expense which is incurred by the agency, and which is chargeable to the Navy Industrial Fund, whether related to ashore or afloat operations, is ultimately charged to one of the four major types of shipping; i.e., passenger, cargo, petroleum, special lifts. The operating and overhead costs of the shore activities are pro-rated to each type of shipping on the basis of the estimated time spent on each. A periodic review of the percentages used for this allocation process is made to insure equitable distribution. Direct costs of the nucleus fleet are identified by type of shipping when they are incurred.

Not all costs, however, are financed by the Navy Industrial Fund.³² The following types of expense are financed by annual or no year appropriations and are excluded from the account classifications previously described:

³² U.S. Dept. of the Navy, Chief of Naval Operations, Terms of Reference for the Military Sea Transportation Service, OPNAV Instruction 5440.58, Tap P, p. 6.

1. New construction or conversion of ships.
2. Pay and allowances of military personnel, attached to the Military Sea Transportation Service.
3. Official representation; entertainment of foreign officials, etc.
4. Additions or changes in the military characteristics of the ships of the nucleus fleet.
5. Repairs of ships due to battle damage, or ice damage incurred in special arctic operations.
6. Routine maintenance and repair of military equipment installed on MSTS ships.
7. Procurement of plant account property.

These costs are accumulated and reported outside of the MSTS accounting system either through open-end allotments, or regular allotments. The latter may be granted to the headquarters for sub-allotting or directly to the cost control center. At present, three allotments are held by the Military Sea Transportation Service: "Contingencies of the Navy" for the purpose of financing official representations, a Bureau of Ships operating and maintenance allotment for the procurement of plant account and the financing of the repairs and maintenance costs cited above, and a Bureau of Weapons allotment for the installation of meteorological program on ships of the nucleus fleet.

Accounting Records

The accounting records for the most part are maintained by electronic accounting and data processing equipment. They are similar in scope and content to those usually kept by a commercial activity using the double entry method of accrual accounting. The following books of original

1. The construction of the bridge.

2. The use of the bridge for the purpose of the bridge.

3. The use of the bridge for the purpose of the bridge.

4. The use of the bridge for the purpose of the bridge.

5. The use of the bridge for the purpose of the bridge.

6. The use of the bridge for the purpose of the bridge.

7. The use of the bridge for the purpose of the bridge.

There are two main reasons for the use of the bridge.

The first reason is that the bridge is a very important part of the bridge.

The second reason is that the bridge is a very important part of the bridge.

The third reason is that the bridge is a very important part of the bridge.

The fourth reason is that the bridge is a very important part of the bridge.

The fifth reason is that the bridge is a very important part of the bridge.

The sixth reason is that the bridge is a very important part of the bridge.

The seventh reason is that the bridge is a very important part of the bridge.

The eighth reason is that the bridge is a very important part of the bridge.

The ninth reason is that the bridge is a very important part of the bridge.

CONCLUSION

The conclusion is that the bridge is a very important part of the bridge.

The conclusion is that the bridge is a very important part of the bridge.

The conclusion is that the bridge is a very important part of the bridge.

The conclusion is that the bridge is a very important part of the bridge.

or final entry are maintained by the Office of the Comptroller, and the comptroller of the subordinate command:

The Journal Voucher Register: This record is a listing of all journal vouchers which are not classified as payables or collectibles. The record is maintained for the purpose of recording miscellaneous transactions which are not provided for in the other books of original entry. Each journal voucher is recorded for control purposes only. In effect, the journal voucher register serves the purpose of a general journal.

The Voucher Register: This book is maintained for the purpose of recording transactions involving the procurement of material, supplies, services, etc., and to facilitate posting to the general ledger accounts. Individual voucher jackets are prepared and recorded therein after a proper audit and verification of vendors invoices. A file of vouchers payable is broken down into two parts, commercial vouchers payable and government vouchers payable. After payment, the voucher jacket is marked with the details of the payment and payment is posted to the voucher register. At the end of each month, the various columns of the voucher register are footed and posted to the general ledger accounts and to the appropriate subsidiary accounts.

Cash Receipts and Cash Disbursements Books: These records are maintained by the Disbursing Officer for the purpose of recording all cash collections or disbursements for the account of the Navy Industrial Fund. Other transactions which affect the Disbursing Officer's account of advances

and which are not attributed to the Navy Industrial Fund are recorded in separate cash receipts and cash disbursements books and are not commingled with MSTIS accounting. At the end of each accounting period, the books are made available to Accounting Division personnel who post the footed columns to the general ledger and to the appropriate subsidiary accounts.

The General Ledger: The ledger is maintained so as to reflect, in summary form, the charges and credits to each account set forth in the chart of accounts. Subsidiary records are maintained where necessary for the purpose of recording the details of the summaries. The ledger consists of the balance sheet accounts and the temporary proprietary accounts. The latter, consisting of income and expense accounts, are closed at the end of each fiscal year.

External Reporting

In discharging his responsibility under the National Security Amendments of 1949, the Secretary of Defense prescribed a system of reporting which facilitates the overall review of budget estimates, the determination of appropriate financial control measures, and the preparation of reports to the President, the Congress, and the cognizant executive agencies.³³ The instructions are issued to assure the reporting requirements of other agencies are satisfied and to meet the requirement for a uniform and integrated system of reporting. They do not pertain to financial operating reports which must be developed by the individual industrial fund managers or activities.

³³ loc. cit., Department of Defense.

Pursuant to these instructions, and the amplifying instructions of the Comptroller of the Navy, the Military Sea Transportation Service submits a series of quarterly reports and annual budgetary and management reviews to the Comptroller of the Navy for incorporation in the Navy Industrial Fund Report. The quarterly reports communicate the financial status of the agency and the progress made on its financial programs.

They include the following reports:

1. Statement of Financial Condition
2. Statement of Revenue and Expense
3. Summary of Source of Revenue
4. Changes in the Principal of the Funds
5. Statement of Cash Sources and Applications

The reports are accompanied by a narrative statement interpreting significant financial and operating changes and trends, also providing information on significant accomplishments and proposed management actions. The narrative includes comments on policies followed in billing and pricing services to customers; an appraisal of progress in the adoption and use of performance measurement techniques; an analysis of current and projected workloads and their effect on planning operations; and a discussion of the modern operating control practices and other management tools in use. The nature of significant items contributing to the net operating results are interpreted, analysed, and highlighted in the narrative in order to provide a clear but concise basis for the review and evaluation of the financial reports by higher authority.

Internal Reporting

Financial reporting within the Military Sea Transportation Service is performed on a monthly and quarterly basis. Each cost control center

submits three types of reports: accounting reports, which provide the historical data needed for external reporting; control reports, consisting of selected financial and operating data which provide management with a continuing and systematic review of trends and current developments; and special reports, which provide the status of problem areas uncovered by the control reports. Only accounting reports are discussed in this chapter. Control and special reports are covered in chapter V.

The accounting reports include the activity's balance sheet and statement of income and expense which are submitted montly, within eighteen days after the close of the period covered by the reports. The balance sheet is supported by an analysis of the changes in working capital, and a statement of the value of vouchers issued or credit received for each intra-MSTS clearing account.

The external reporting requirements of the agency necessitate the accumulation of some data which are not reflected in the summary general ledger accounts. Accordingly, quarterly supplemental reports are submitted to the headquarters showing more detailed information for non-operating income, travel advances, and cash transactions.

Annually, by the first day of the second month following the close of the fiscal year, the subordinate commands must submit a "Statement of Reconciliation of Cash Account." These statements are consolidated by the Office of the Comptroller and reconciled with the MSTS cash balance as shown in the central ledgers of the Navy. Detailed listings of transactions supporting the reconciliation are not forwarded to the Office of the Comptroller but are retained at the field level. The data which are included in the reconciliation statement are shown in TABLE 3. While the report is an annual

one, the operation of reconciling abstracts of charges and credits as listed on the Navy Regional Accounts Offices' cost registers is performed monthly.

TABLE 3. Format for the Reconciliation Statement of the Cash Account, Prepared as of the End of the Fiscal Year by all Cost Control Centers.

Name of Command Reconciliation of Cash Account As of 30 June, 196__	
Balance per Account 1101	\$ 1,000,000
ADD:	
Expenditures recorded in books not reported on Navy Regional Accounts Office Register	50,000
Receipts reported on Navy Regional Accounts Office Register, not recorded in books	50,000
Total...	\$ 1,100,000
DEDUCT:	
Expenditures reported on Navy Regional Accounts registers, not recorded in books	70,000
Receipts recorded on books not reported on Navy Regional Accounts Office registers	80,000
Total deductions...	150,000
BALANCE	\$ 950,000

Source: NAVEXOS P-1280. NAVY INDUSTRIAL FUND HANDBOOK FOR THE MILITARY
SEA TRANSPORTATION SERVICE: Chapter 03, para. 030994.

The total expense which has been accumulated on work in process is charged, at the end of each month, to the ultimate expense account, or in the case of reimburseable expense, to accounts receivable so that the work in process account reflects a zero balance at the end of the month, regardless of the state of completion of the job. A report of maintenance shop operations showing a summary of shop expense by type of cost and costs of work performed by type of job is submitted quarterly by the Atlantic and Pacific Area Commanders to the Office of the Comptroller. Maintenance and repair costs by account classification are also reported.

Property Accounting

"Title 10 U.S. Code 2701(a) prescribes that the Secretary of Defense, under the regulations promulgated by him, shall cause to be maintained records of the fixed property, installations, and major equipment items of the Military departments that are in use, both on a quantitative and monetary basis."³⁴ For control purposes, property is divided into the following classes:

1. Plant Property Class 1 - Land
2. Plant Property Class 2 - Buildings and Improvements
3. Plant Property Class 3 - Equipment

The Military Sea Transportation Service has, under its control, only Class 3 - plant property. This class includes machinery or equipment of a capital nature, such as machine tools, equipment used in production or in the performance of services, etc. It does not include items of equipment which are consumed in such processes. Generally, equipment which has an acquisition cost of \$100

³⁴U.S., Dept. of the Navy, Office of the Comptroller, Navy Comptroller's Manual, Vol. II, para. 036000-2.

or more, inclusive of installation cost, is classified as plant property. Detailed criteria for the determination of plant property and exempted items are found in the Navy Comptroller's Manual.³⁵ As stated previously, plant property is not financed by the Industrial Fund. About \$1.5 million dollars of property is dispersed throughout the global organization. It is accounted for by the area or subarea commander on an individual item basis in accordance with the instructions of the Navy Comptroller.

The agency also has about \$350,000 of special industrial production equipment as well as minor property; i.e., property which is capital in nature but fails to meet the criteria for plant property. Formal accounting is not performed for minor property, except for those items which have been earmarked by the financing bureau. Continuous accountability is not required, and reports of the money value of minor property are submitted only when requested by the cognizant bureau. The specialized production equipment is handled similarly, except that a complete listing of tooling in storage must be maintained by the subordinate commands.

CHAPTER IV

BUDGET FORMULATION

Introduction

In a commercial company, the budget formulation process usually begins with establishing the goals of the business within the economic climate expected to prevail during the budget year. On the basis of this plan or statement of policies, sales and income forecasts are developed to meet the prescribed objectives of management. While the sales forecast is often the most difficult to accomplish accurately, it is the most important part of the budget structure since it influences all other segments of the budget. The next step in the formulation process normally consists of the preparation of a production plan designed to meet the requirements of the sales forecast. Estimates are then made of the cost of goods to be sold; the materials to be purchased, stocked, and consumed; the labor effort required to carry out the plan; and finally, the operating expenses necessary to obtain budgeted sales and to deliver the products or services to the consumer. All these activities are planned in relation to each other and especially in relation to the anticipated sales level. If the job is well done, the completed budget meets the definition of a coordinated financial plan for the operation of the business.³⁶

The budget process in the Military Sea Transportation Service is similar in many respects to commercial budgeting. The differences that do exist are attributed, for the most part, to requirements of law, and to

³⁶ op. cit., Anderson and Schmidt, pp. 451 - 452.

the long review cycle inherent in government budgeting rather than to methodology. The process begins with the President's statement of policy and the development of an estimate of sales based on the lift requirements of each military service. Expense budgets are constructed within the framework of public policy and are directly related to the forecasted business activity expected during the budget year. The integrated budget is designed to meet the objectives of the nation as they regard ocean transportation. There are two distinct phases; the preparation of the planning budget and the development of the operating budget. Both accurately represent the programs and objectives of the agency, but are prepared at different points in time. They are prepared from the same source data, but do not ordinarily agree in all respects because of major differences in format, substance, preparation date, and purpose. The planning budget, as the name implies, is the earlier and broader forecast, while the operating budget is more detailed and is oriented towards the execution and control phases of financial planning.

The Planning Budget

While the planning budget includes less supporting detail than is required for the planning and immediate control of operations, it must thoroughly explain the plans which underlie the budget data. It must be interpreted to represent the programs that, in the judgment of the Commander, are believed attainable through the best efforts of his organization under the conditions assumed to prevail during the budget year. The programs

that are reflected in the planning budget must conform to the known policies of the President, to public law, and to the general policies set forth by the Bureau of the Budget.³⁷ The latter usually include guidance with respect to the preparation of budget year estimates for continuing programs, new programs, new contract authorizations, functions resulting from new or proposed legislation, personnel compensation, the effects of price level changes, and policies with respect to the preparation of supporting schedules showing current and historical transactions.

Detailed instructions for the preparation and submission of the planning budget estimates are issued by the Comptroller of the Navy about twelve months before the budget year. Usually, they include the premises upon which the estimates are to be developed and amplify the broader policies and instructions of the Bureau of the Budget. They pertain to all industrial fund activities. Although each activity's budget estimate is reviewed independently, all must eventually be consolidated into the Navy Industrial Fund budget. Computability is therefore essential, and deviations from the instructions of the Navy Comptroller are not authorized.

Upon receipt of the budget guidelines, the agency begins the formulation process by requesting each military service to submit estimates of its ocean shipping requirements detailed as to routing and commodity classification. The estimated lift requirements are costed at the current tariff levels to form the sales and income forecast for the budget year, and to provide the military services with financial data upon which to base

³⁷ U.S., Bureau of the Budget, Instructions for the Preparation and Submission of Annual Budget Estimates, BuBud Circular No. A-11, Sec. 1 - 11.

their annual appropriation requests for ocean transportation. The sales and income forecasts serve as the basis for determining the level of manpower and the resources required by the agency in order to carry out its programs for the budget year. Expense budgets are developed centrally at the headquarters from current and historical data tempered by known planned requirements. When completed, the planning budget represents a comprehensive analysis of current and past year financial results, and a determination of the financing required for the balance of the current year, and for the entire budget year. The budget package consists of the following financial statements and schedules:

- a. Statement of Financial Condition: actual and proforma balance sheets for the past two, the current, and the budget years, similar in content to comparative balance sheets of a commercial enterprise with one exception. Since capital investment is not financed by the Navy Industrial Fund, fixed assets are excluded from the asset section of the balance sheet and are shown as supplementary data at the foot of the statement.
- b. Statement of Revenue and Costs: actual and proforma profit and loss statements showing revenue and expense and related statistical data for the past, current, and budget year. The statement is similar to a combined statement of income and retained earnings since it includes a section for operating results showing net profit or loss for the fiscal year; prior year adjustments; operating results brought forward at the

These two aspects of the problem are closely related. The first is the question of the nature of the evidence which is to be used in the determination of the facts of the case. The second is the question of the method of the determination of the facts of the case. The first is a question of the nature of the evidence which is to be used in the determination of the facts of the case. The second is the question of the method of the determination of the facts of the case.

2. Statement of the facts of the case. The facts of the case are as follows: The plaintiff, who is a citizen of the State of New York, has brought this action against the defendant, who is a citizen of the State of New York, for the recovery of the sum of \$100.00. The plaintiff claims that the defendant has wrongfully taken the sum of \$100.00 from him. The defendant denies this claim and claims that the sum of \$100.00 was lawfully taken from him.

3. Statement of the law applicable to the facts of the case. The law applicable to the facts of the case is the law of the State of New York. The law of the State of New York provides that a person who wrongfully takes the property of another is liable to the owner of the property for the value of the property taken. The law of the State of New York also provides that a person who lawfully takes the property of another is not liable to the owner of the property for the value of the property taken.

beginning of the period, and accumulated retained earnings at the end of the fiscal year. The operating statistics section of the statement discloses costs incurred during the accounting period by the Military Sea Transportation Service but not funded by the Naval Industrial Fund: i.e., military personnel costs, depreciation on plant and equipment; military and civilian personnel on board at the end of the fiscal year; and selected statistical data on lifts transported.

c. Summary of Sources of Revenue: a statement which shows, for the past, current, and budget years, total amounts billed or expected to be billed to each military service and to the Department of Defense, by consumer appropriation; the total amounts billed to other government departments; billings to non-appropriated funds, individuals; and the unbilled balance of customer orders at the end of each year.

d. Summary of Changes in Principal of Fund: a statement which discloses the actual or anticipated changes in the cash allocations, capitalized assets, and liabilities assumed during past, current, and budget year.

e. Narrative statement: a statement supporting the financial data submitted; highlighting the progress, achievements, problem areas, and other factors of significance in the operation of the Military Sea Transportation Service, including improvements in management techniques.

f. Cash Reconciliation Schedule: a reconciliation of the cash balance as recorded on the books of the agency and the U. S. Treasury on June 30 of the past year.

g. Adjustments to Costs Schedule: a statement showing credit adjustments to accrued costs. Since the costs reflected in the planning budget are on a net basis, and since final budgetary requirements dictate the stating of costs on a gross basis, a schedule of credit adjustments must be included.

h. Object Classification Summary: a statement listing the actual or estimated accrued expenditures for the past, current, and budget years by object classification in order to provide the Bureau of the Budget with a uniform basis for consideration of the budget estimates and for consolidation of certain information on a government-wide basis. Object classes which are included in this summary consist of the following:

- 11 Personnel Compensation
 - Permanent Positions
 - Non Permanent Positions
 - Other Personnel Compensation
- 12 Personnel Benefits
- 21 Travel and Transportation of Persons
- 22 Transportation of Things
- 23 Rent, Communications, and Utilities
- 24 Printing and Reproduction
- 25 Other Services
- 26 Supplies and Materials
- 31 Equipment

41 Grants, Subsidies, and Contributions

42 Insurance Claims and Indemnities

43 Interest and Dividends

44 Refunds

i. Personnel Summary: a schedule which amplifies the financial data submitted in the object classification summary by providing for the past, current, and budget year, related statistical data on the number of personnel and the number of positions on hand.

j. Reconciliation Statement to Object Classification: a statement which reconciles the accrued expenditures reported on the financial statements with the schedule of object classifications reported in the object classification summary.

k. Supplementary Exhibits: various schedules designed to support the budget estimates by providing additional data similar to the following:

1. Average civilian employment, including manpower narrative statements, average military employment, overtime, excess leave taken over earned leave, number of personnel employed by geographic area, average manyears of employment, etc.
2. Electronic data processing equipment employed, and related information.
3. Maintenance and improvement of real property.
4. Analyses of direct and indirect labor costs including the number of personnel, military and civilian, used in each category.
5. Percent of direct labor covered by standard costs.
6. Percent of billings at predetermined prices.

As part of the annual budget process and as provided for in the Industrial Fund Regulations, the planning budget is submitted to the Comptroller of the Navy for initial review and approval, and then to the Department of Defense and the Bureau of the Budget. Estimates are reviewed with respect to the cost and sales forecasts; the relationship of this forecast to the shipper services' appropriations requests; working capital requirements; financial and accounting policies; legal requirements or limitations; and the stated policies of the President. Upon completion of these detailed reviews, the planning budget is consolidated with the budget estimates of all other industrial fund activities by the Comptroller of the Navy and is submitted to the Congress for final acceptance.

In the consolidation process, the estimates, for the most part, are commingled with those of all other Navy Industrial Fund activities. Thus, in the final product, the Budget of the United States, only two simple one line entries in the Programming and Financing Schedule of the Navy Industrial Fund can be identified as relating to the function of ocean transportation: (1) The cost of goods and services produced, and (2) customer orders received by the Military Sea Transportation Service. Included in the national budget, however, is a brief description of the services provided by the agency and a summary of the estimated workload and costs expected in the four major areas of operation: cargo shipping, passenger transportation, petroleum lifts, and special projects.

The Operating Budget

The operating budget is a short term forecast which, if accepted by the Department of Defense, becomes the financial operating plan for the year in question. Unlike its predecessor, it expresses a detailed plan of action in financial terms and is therefore developed jointly by the headquarters and the area and cognizant subarea commanders. The formulation process consists of updating the estimate of sales, developing an operating force plan to meet the requirements of the armed forces, preparing related overhead and operating expenses budgets, adjusting tariff rates to eliminate excessive profits or losses anticipated during the budget years, and preparing financial statements to reflect these changes. A schematic illustration of the process is shown in PLATE VI.

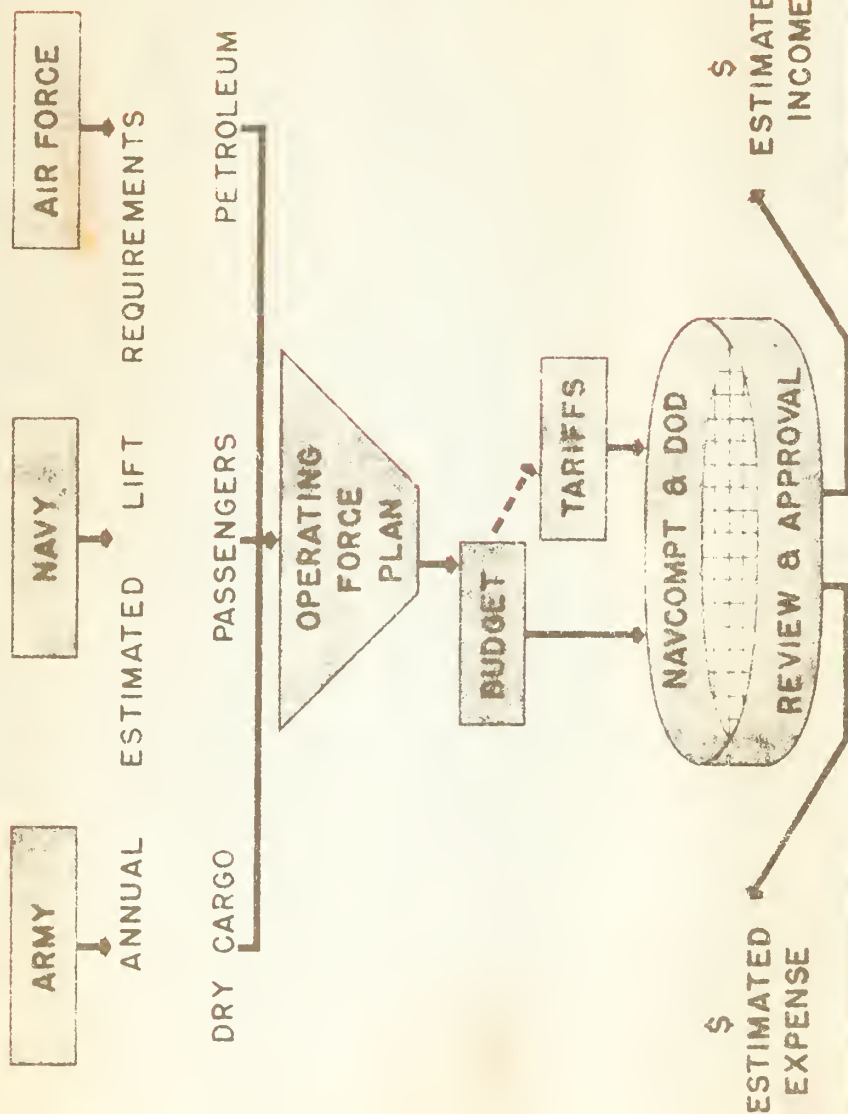
After the approval of the planning budget by the Bureau of the Budget, the Military Sea Transportation Service requests each military department to provide a current and more detailed breakdown of its ocean shipping requirements. The requirements which are submitted by the shipper services show, by type of operation, the routing and shipping date of the lift classifications shown in TABLE 4.

TABLE 4. Lift classifications for which the Armed Forces Submit Requirements, by Route and Month of Shipment, to the Military Sea Transportation Service.

<u>Type of Service</u>	<u>Classification</u>
Cargo:	General cargo, ammunition, privately owned automobiles, cargo carrying trailers, other special cargo, aircraft, reefer, bulk, retrograde - empty conex containers, scrap, salvageable material, other empty containers, dunnage, and cargo handling gear.
Passenger:	Revenue-dependent cabin class, revenue-other cabin class, revenue-troop class, non revenue-cabin class, non revenue-troop class, an unit or complete organization lifts.
Petroleum:	Black or clean products by type of sponsor such as troop support, reimbursable, or as specified in the requirements.
Special Project:	<p>Troop support, civilian aid, reimbursable lifts, Mutual Defense Assistance Program lifts, or as specified in the requirements.</p> <p>Requirements for special projects must include the number of ships required, estimated assignment dates, estimated release dates, the number of ship days to be employed, estimated dry cargo requirements, the number of passengers, and bulk petroleum requirements as appropriate.</p>

Source: Personal interview with Mr. H. S. Beck, Jr., Head, Contract Shipping Budget and Tariff Branch, Budget Division, Office of the Comptroller, Military Sea Transportation Service on 14 March, 1962.

MSTS OPERATING BUDGET & TARIFFS



The quantitative requirements are converted into an annual sales forecast through the application of current MSTIS tariffs. Concurrently, these requirements are analyzed and matched against the lift capability of the nucleus fleet. On the basis of this comparison, an operating force plan is developed setting forth the proposed method of meeting the shipper services' requirements. The supporting details of the plan must account for all available time and space of MSTIS controlled shipping, by route and commodity, and must show the proposed way of meeting the requirements in excess of the nucleus fleet's capability. The operating force plan thus prescribes the lift to be carried by controlled shipping and by commercial vessels, the latter being further analyzed to reflect the lift by American flag and foreign flag vessels and by type of contract to be employed.

The approved operating force plan serves as the basis for the final estimate of sales; a forecast which shows, by lift classification, the monthly revenue expected to be generated by the nucleus and commercial fleets, by type of carrier, and in the case of commercial ships, by type of contract.

It was stated previously that the expense budgets are developed jointly by the Commander and his Area Commanders. TABLE 5 shows, by formulating command, the type of expense budgets prepared:

TABLE 5: Cost Control Centers of the Military Sea Transportation Service and the types of expense budgets maintained by them.

<u>Cost Control Center</u>	<u>Expense Budget</u>
Commander, Military Sea Transportation Service, Washington, D. C.	<ol style="list-style-type: none"> 1. Commercial ocean shipping 2. Headquarters overhead 3. Major maintenance and repairs of nucleus fleet ships, including alterations, in-activations, and activations
Commander, Military Sea Transportation Service, Atlantic Area	<ol style="list-style-type: none"> 1. Nucleus fleet operating expenses 2. Overhead - local and subordinate commands except New Orleans Sub Area
Commander, Military Sea Transportation Service, Pacific Area	<ol style="list-style-type: none"> 1. Nucleus fleet operating expense 2. Overhead-local and subordinate commands
Commander, Military Sea Transportation Service, Eastern Atlantic and Mediterranean	<ol style="list-style-type: none"> 1. Overhead - local and subordinate commands
Commander, Military Sea Transportation Service, Far East Area	<ol style="list-style-type: none"> 1. Overhead - local and subordinate commands
Commander, Military Sea Transportation Service, Gulf Sub Area	<ol style="list-style-type: none"> 1. Overhead - local and subordinate commands

The headquarters overhead expense budget estimates and ship maintenance and repair expenses beyond the estimates of the Area Commanders originate in the cognizant divisions of the headquarters and are submitted to the Office of the Comptroller for analysis, review, and consolidation with the field expense budgets. Commercial shipping expense is forecasted by the Budget Division after a careful analysis of the operating plan. It is developed on the basis of past experience tempered by a consideration of the nature and size of the lift requirements, the type and capacity of the ships available, the routing and distances involved, seasonal implications, and the type of shipping contracts cited.

The net income for the coming year is then computed by the Budget Division. If it appears that an excessive profit or loss will occur, adjustments to the tariffs are recommended to the Commander in order to balance revenue against expense. The next step consists of reassembling the adjusted data into (1) the Statement of Income and Expense, (2) the Statement of Budgeted Income by Sponsor, (3) the Statement of Operating Expense - MSTs Nucleus Ships, and (4) the Statement of Overhead Expenses. The Budget Branch then analyzes the effect income and expense will have on the financial condition of the agency as reflected at the end of the current year. On the basis of this study, a (5) Proforma Balance Sheet and (6) a Summary of Changes in Working Capital during the budget year are prepared. The six statements are then assembled and presented to the Department of Defense for review and approval. The operating budget for the fiscal year 1962 is illustrated in the APPENDIX.

The following are the main points of the report:

The first point is that the results of the survey are very satisfactory. The second point is that the results of the survey are very satisfactory. The third point is that the results of the survey are very satisfactory. The fourth point is that the results of the survey are very satisfactory. The fifth point is that the results of the survey are very satisfactory. The sixth point is that the results of the survey are very satisfactory. The seventh point is that the results of the survey are very satisfactory. The eighth point is that the results of the survey are very satisfactory. The ninth point is that the results of the survey are very satisfactory. The tenth point is that the results of the survey are very satisfactory.

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The Area Commander's Budget

The policies and procedures which guide the area or sub area commander in the preparation and presentation of his expense budgets are set forth in MSTB Instruction 7130.1A. Since these budgets are an integral part of the overall operating plan and must be consolidated by the headquarters comptroller, strict compliance with the prescribed format is necessary. Budget submissions include the overhead budget which presents estimates of the general, administrative, and operating expenses to be incurred by the shore elements of the Area Commander's organization, and the nucleus ship operating budget reflecting all expenses expected to be incurred by the sea going units under his operational control.

Overhead budgets are developed on the basis of the number of personnel and facilities considered necessary to support the command mission during the budget year pursuant to the assumptions and guidelines, including projected lift requirements, which are provided by the Commander, Military Sea Transportation Service. A detailed forecast of expense is prepared for each overhead account. For purposes of control and presentation, these accounts are grouped into seven major classifications: Salaries and Wages; Indoctrination and Training; Ships' Design, Development and Experimental Expenses; Travel; Public Information; Other Expenses; and Reimbursable Overhead Expenses. The budget package submitted to the headquarters includes a summary of these control groups, reflecting within each group, the anticipated expense by component account. Detailed exhibits, similar to that illustrated in PLATE VII, are included for the individual component accounts or combinations of related accounts. Each exhibit must include a narrative justification as well as a detailed breakdown of costs and related statistical data. A schedule of overhead budget control groups and their component accounts are shown in TABLE 6.

TABLE 6: Schedule of Overhead Budget Control Groups and the Component Accounts for which Detailed Exhibits Must Be included in the Overhead Budget of Each of the Cost Control Centers.

<u>Control Group</u>	<u>Accounts</u>
I. Salaries and Wages:	Regular time, classified, including annual, sick, and military leave. Regular time, unclassified, including annual, sick, and military leave. Indigenous labor. Overtime, classified and unclassified.
II. Indoctrination and Training:	Salaries and wages, classified and unclassified.
III. Design, Development, and Experimental Expenses - Ships:	Salaries and wages, classified and unclassified.
IV. Travel:	Personnel travel.
V. Public Information:	Public information.
VI. Other Expenses:	Various employer payroll contributions. Occupancy of premises. Equipment rental. Office supplies and stationary, and postage. Communications. Operation of automotive equipment. Operational equipment. Repair and replacement of office furniture and equipment. Civilian medical expenses. Other overhead expenses.
VII. Reimbursable Overhead Expenses:	Expenses which are reimbursable and which are incurred for other government departments.

Source: U.S., Department of the Navy, Military Sea Transportation Service, MSTs Instruction 7130.1A of 19 January, 1962.

EXHIBIT D
COMSTSFEAREA
FY 19BY OVERHEAD BUDGET PRESENTATION

Account 5314 - Indigenous Labor

	FY 19PY Actual	FY 19CY Estimated	FY 19BY Requested	FY 19BY Proposed/Approved	
Direct Hire					
Graded Type:					
1. Ceiling	\$	\$	\$	\$	(Line 2 x Line 3)
2. Average on board					
3. Average annual salary	\$	\$	\$	\$	
4. Total graded type salaries					
Ungraded Type:					
5. Ceiling					
6. Average on board	\$	\$	\$	\$	
7. Average annual salary	\$	\$	\$	\$	
8. Total ungraded type salaries	\$	\$	\$	\$	(Line 6 x Line 7)
Indirect Hire					
Graded Type:					
9. Ceiling	\$	\$	\$	\$	
10. Average on board	\$	\$	\$	\$	
11. Average annual salary	\$	\$	\$	\$	
12. Total graded type	\$	\$	\$	\$	(Line 10 x Line 11)
Ungraded Type:					
13. Ceiling					
14. Average on board	\$	\$	\$	\$	
15. Average annual salary	\$	\$	\$	\$	
16. Total Ungraded Type	\$	\$	\$	\$	(Line 14 x Line 15)
17. Total Salaries	\$	\$	\$	\$	(Total Lines 4, 8, 12, and 16)

REMARKS: If paid overtime is incurred, the number of hours and related dollar amounts will be reported on separate lines.

(Date)

ENCLOSURE (1)

The nucleus ship operating budgets are submitted only by the Area Commander who has ships of the nucleus fleet under his direct operational control. The budget is presented in two parts. The first part reflects the expense to be incurred by those nucleus vessels in full operational status during the entire budget year. Estimates are made on the assumption that these ships will be utilized on the same operational pattern as the current year. An exception to this premise is authorized when the Area Commander has anticipated a revision to the operating pattern and can fully justify the change. Expense forecasts are based on historical cost data, known planned requirements, and scheduled overhauls. The second part of the budget reflects those expenses expected to be incurred by ships scheduled for full operational status during only a portion of the budget year. It is developed on the basis of past experience and on the operating plans provided by the Commander, Military Sea Transportation Service. For purposes of control and presentation, the operating expense accounts applicable to both parts of the nucleus ship operating budget are grouped into twelve major classifications which are illustrated in TABLE 7. The budget package presented to the Commander consists of the following documentation.

PART I

1. A consolidated summary, by control group and component accounts, of the actual or estimated expenses for the past, current, and budget year for all nucleus ships.
2. An individual summary, similar in scope and format to the consolidated summary, for each of the four major types of operation: cargo, passenger, tanker, or special project ships.

The author has given no account of the work of the

Committee on the part of the various committees of the

Committee. The report is contained in the report of the

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APPENDIX

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Committee on the part of the various committees of the

Committee on the part of the various committees of the

3. Detailed exhibits, similar to the overhead budget exhibits in method of presentation, showing expense and related statistics for each of the control groups and its component accounts, by ship.

PART II

1. An individual exhibit, presenting the forecasted expense and statistical data group and its component accounts, by ship for the current and budget year, broken down into the following time periods: full operational status; inactivation; ready reserve; and activation.

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TABLE 7: Schedule of Nucleus Ship Operating Expense Control Groups and their Component Accounts for which Detailed Exhibits Must be Submitted in Justification of Amounts Requested by the Cognizant Area Commanders in their Nucleus Ship Operating Budgets.

<u>Control Group</u>	<u>Component Accounts</u>
I. Salaries and Wages & Related Expenses	Includes exhibits for regular time, overtime, relief officers, bonuses, annual, sick, and military leaves, personnel awaiting assignment, and indigenous labor, as well as employer payroll contributions.
II. Indoctrination and Training	Indoctrination and training
III. Propulsion Fuel	Propulsion fuel
IV. Subsistence	Crew, cabin mess, and troop mess
V. Other Ship Operating Expense	Travel, cash in lieu of quarters, consumable supplies, bedding and tableware, medical and dental expenses, transportation and material handling, laundry, port charges, repairs to special material by disposal, gains or losses on special material in store by inventory or accounting, terminal demurrage, and miscellaneous expenses.
VI. Ships Equipage	Ships equipage
VII. Maintenance and Repair of Ships	Maintenance and Repairs - non-military in nature.
VIII. Alteration of Ships Unprogrammed	Ship Alterations - non-military, unbudgeted
IX. Alteration of Ships Programmed	Ship Alterations - non-military, budgeted.
X. Activation of Ships	Activations
XI. Inactivation of Ships	Inactivations
XII. Extraordinary Repairs	Extraordinary repairs.

Source: U.S., Department of the Navy, Military Sea Transportation Service, MSTS Instruction 7130.1A of 19 January, 1962.

CHAPTER V

MANAGEMENT CONTROLS

"The control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its objective is to point out mistakes in order that they may be rectified and prevented from occurring again." ³⁸

Control ... a simple word with a profound meaning in the field of business administration. While much has been written on the concept of control, the definition cited above is difficult to improve on. How is control exercised in the Military Sea Transportation Service? What controls are placed on the Commander by the Congress and the President? How does he, in turn, assure himself that operations are proceeding according to his instructions? This chapter attempts to answer these questions.

Congressional Controls

There are two types of controls placed on the Commander, Military Sea Transportation Service by the Congress. The first type provides the framework within which the operations of the agency are to be conducted. Controls of this nature are expressed in terms of policy through the media of substantive

³⁸ Henri Fayol, General and Industrial Management, (London: Sir Isaac Pitman Publishing Corp., 1949, original in French, DUNOD, Translated by Constance Storrs), p. 107.

legislation. Direction in such matters as the equitable distribution of lift requirements between government and commercial shipping, the support of the Merchant Marine and the like is provided in this manner. The second type of control is more administrative in nature. It is exercised through the budgetary process and is directed, for the most part, towards the economical use of funds, or in some cases, toward the contrary objective of protecting vested interests. It may be applied directly to the Military Sea Transportation Service by restricting specific elements of the Navy Industrial Fund budget; by limiting the number of civilian or military personnel to be employed in the function of ocean transportation; or by placing limitations on the amounts appropriated to other bureaus for the procurement of ships and equipment to be utilized by the Military Sea Transportation Service. Controls may be imposed indirectly by including, in the annual appropriations of the shipper services, limitations on how these funds are to be expended for ocean transportation. Finally, control of expenditures is exercised, to some extent, through the provisions of Section 3679 of the Revised Statutes, as amended through 1957.

The Industrial Fund and Section 3679

The Anti-Deficiency Act, as Section 3679 of the Revised Statutes is called, provides the Congress and the President with the means of controlling the rate of expenditures through the use of an apportionment system. Briefly, the provisions of the Act require the apportionment or re-apportionment of obligational authority by an officer, other than the Head of the Department concerned, in a manner which will preclude the need for deficiency or supplemental appropriations. For the Secretary of the Navy, the apportionment

officer is the Director of the Bureau of the Budget. Control is exercised by withholding appropriations in excess of actual requirements, by establishing reserves for contingencies, by extending control to the operating level through a system of allotments, by providing a system of reporting violations to the Congress and to the President, and by providing for a severe penalty to be inflicted on any officer who wilfully over-obligates or over-expends his allotment.

While the provisions of Section 3679 have a profound effect on the control of appropriated funds allotted to the agency by other bureaus, they do not provide control over the Industrial Fund's expenditures for ocean transportation. Under Section 3679 (f) 1 of the Revised Statutes, the Director of the Bureau of the Budget may exempt, among other things, working fund expenditures which have no significant effect on the financial operations of the Government; working capital and revolving funds established for intra-governmental operations; and receipts from industrial or power operations. In the case of the Navy Industrial Fund, the Director of the Bureau of the Budget has chosen to exercise this privilege to some extent. The apportionment process for the Military Sea Transportation Service consists merely of the review and approval of the operating budget shortly before the beginning of the budget year. Working capital is set at a prescribed level for the subsequent fiscal year on the basis of the planning budget review. No effort is made to control the rate of expenditures during the operating phase of the budget. Periodic reviews, however, are made throughout the budget year and variances from forecasted expense must be adequately explained. Reserves for contingencies are established and maintained by the Military Sea Transportation Service during the normal

course of business from receipts for the service provided. With regard to the reporting of violations, the Secretary of the Navy has interpreted the requirements of the Anti-Deficiency Act as being applicable only at the appropriation level, i.e., at the Industrial Fund level. Although all comptrollers of the Military Sea Transportation Service must certify that the end of year financial statements are fully supported by and have been checked against transaction documents held at their commands, it would be difficult, under this interpretation, to pin-point responsibility for violations below the departmental level. Since it is unlikely that the penalty clause would ever be invoked at that level, Section 3679 loses its power as a means of control.

Informal Controls - Buyer and Seller Relationships

An important element of control can be found in the influences exerted on the agency by its principal customers - the armed forces. Since the shipper services are rigidly controlled through annual appropriations, the apportionment process, et al, they are vitally concerned with getting the most value out of their appropriated dollar. They are quick to point out areas where more efficiency or economy is needed. Consumer pressure in this vein is welcomed by the Commander of the Military Sea Transportation Service, since it is his desire to provide the best possible service at the lowest possible cost. In order to stimulate this informal control, the Commander has instituted a so called "Shipper Service Fiscal Conference". This conference is held monthly and is attended by representatives of each military service, and the offices of the Secretary of the Navy and Secretary of Defense. A comprehensive report of the transportation services rendered

for the immediate past is presented at this conference by the Commander and his staff. Forecasted and actual operating results are compared and variances from the budgeted plan are explored. The atmosphere in which these conferences are held is one of informality and is conducive to the exchange of constructive criticism.³⁹

Internal Audit

Departmental control is provided through the function of internal audit. "Modern internal auditing is more than a mere mathematical checking or routine examination of accounts. It comprises a complete intra-company financial and operation review."⁴⁰ The Comptroller of the Navy has permanently assigned three resident auditors to the Military Sea Transportation Service's headquarters. These auditors are not controlled by the Commander. They report directly to the Internal Audit Division of the Navy Comptroller's office. All functions at the headquarters must be reviewed and audited within a three year period. The coverage of the internal audit can not be clearly circumscribed. All areas are subject to audit to the extent deemed necessary by the auditors in the light of the relevant circumstances. The audits are not aimed primarily at the disclosure of errors, nor are they performed to verify the accuracy of records and reports. Rather, the auditor's task is to determine and appraise the extent to which errors, uneconomical procedures, and unauthorized practices exist, and to identify the causes of the discrepancies in order that action may be taken by management to eliminate the deficiencies in the operation.⁴¹ The audit

³⁹ _____ . Personal interview with Captain W. W. Hobgood, Supply Corps., United States Navy, Comptroller, Military Sea Transportation Service on 3 April, 1962.

⁴⁰ W. A. Walker and W. R. Davies, Industrial Internal Auditing, (New York: McGraw-Hill Book Company, Inc., 1951) p. 3.

⁴¹ op. cit., NAVPERS 10792, p. 192.

is primarily protective, and its value is determined not in terms of dollars saved, but rather in terms of improved administration.

Internal Control

Control within the Military Sea Transportation Service is achieved through several ways. One avenue towards effective control of systems and procedures is that of internal control. It "comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, to check the accuracy and reliability of its accounting data, to promote its operational efficiency, and to encourage adherence to prescribed managerial policies".⁴² It provides the means through which the Commander can be assured that the tasks are being carried out without his personal supervision. The function has many of the characteristics of internal auditing, but is not a substitute for, nor is it equivalent to, the independent appraisal audit performed by the representatives of the Navy Comptroller. Its elements consist of organizational structure, procedures, accounting and other records, reports, standards of performance, and internal review. These elements at all levels of the global organization of the Commander are examined during the course of management inspections, trouble shooting situations, investigations, surveys, et al. Procedures are checked across organizational lines to detect weaknesses and the causation of these deficiencies. While internal control is no substitute for internal audit, the presence of resident auditors at the headquarters level allows the Comptroller of the Military Sea Transportation Service to concentrate on those systems and procedures which affect the world-wide organization.

⁴²American Institute of Certified Public Accountants, A Special Report by the Special Committee on Auditing Procedures, 1949.

Usually, the best clue that an internal review is needed is the reporting of a specific problem by a subordinate command.⁴³ Sometimes, these problem areas are uncovered by external auditors of the General Accounting Office or the Office of the Comptroller of the Navy. Regardless of source, each deficiency is systematically checked and corrected through procedural changes. Examples of procedures which are scrutinized by the internal control personnel include the collecting or storing of cash ashore and afloat, the routing of checks received through the mails, the payment of vouchers, etc. In addition, special surveys such as the review of cost-plus-a-fixed fee contractors' accounting records and reporting systems are conducted in order to determine the validity and completeness of the data.

Budgetary Controls

Another form of internal control is found in the budget execution process. "Budget execution is the accomplishment of the plan. It is the process established to achieve the most effective, efficient, and economical use of appropriated funds in carrying out the programs for which the funds were approved."⁴⁴ In the preceding chapter, it was pointed out that the agency's financial plan is developed after the approval of the planning Budget and after the submission of the military services' appropriation requests to the Congress. In some instances, the plan is completed after the granting of appropriations to the shipper services. It is the best estimate attainable before the beginning of the budget year. Therefore, it is logically the plan to be executed; the plan against which actual performance will be measured.

⁴³ _____ . Personal Interview with Mr. J. G. Rowlett, Director Internal Control Division and Acting Deputy Comptroller, Office of the Comptroller, Military Sea Transportation Service on 30 March, 1962.

⁴⁴ op. cit., NAVPERS 10792, p. 64.

Accordingly, the law does not require a person to be

reporting as a person who is a permanent resident.

These provisions have been amended by various sections of the law.

According to the law, the Department of the Interior, Bureau

of Land, has authority to issue the various permits

provided for in the law. The Department of the Interior

has authority to issue the various permits provided for in the law.

It is the policy of the Department of the Interior to issue

the various permits provided for in the law to the persons

who are entitled to them under the law. The Department of the Interior

has authority to issue the various permits provided for in the law.

Section 1000

Section 1000 of the law provides that the various permits

provided for in the law shall be issued to the persons

who are entitled to them under the law. The Department of the Interior

has authority to issue the various permits provided for in the law.

It is the policy of the Department of the Interior to issue

the various permits provided for in the law to the persons

who are entitled to them under the law. The Department of the Interior

has authority to issue the various permits provided for in the law.

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After the approval of the financial operating plan by the Department of Defense, the Commander distributes the adjusted budgets to the cost control centers. This action normally takes place in the last quarter of the current year. These expense budgets are not apportioned by the Department of Defense, nor are they allocated by time period within the budget year by the Commander. Phasing by time period (quarter) is delegated to the cost control center by the Commander. General instructions on the methodology to be employed in phasing expense, however, are provided by the Comptroller of the Military Sea Transportation Service. These annual budgets normally are not adjusted during the budget year unless a significant change in the organization, composition, or operation of the field command or the nucleus fleet occurs, and costs incident to the change can not be absorbed.

The budget is administered by type of expense, i.e., overhead or fleet operating expense. Control of overhead expense is extended to the six major group accounts.⁴⁵ Control of fleet operating expense is extended to the major type of service provided, and to the twelve major group accounts within each type.⁴⁶ In the case of special project ships, however, control is exercised by project. The component accounts within each group account of either the overhead or operating budgets may be over-expended provided that the aggregate of the expenditures for the group account remains within budgetary limitations. Control of expenditures by individual ship is delegated to the Atlantic and Pacific area commanders.

Funds for programmed or unprogrammed extraordinary expenses such as ship alterations, activations, or inactivations, and damage repairs are

⁴⁵ Supra, p. .

⁴⁶ Supra, p. .

budgeted for and administered by the headquarters. Whenever such extraordinary items occur, specific allocations of funds are made to the area commander who will oversee the performance of work. These grants are not commingled with the Area Commander's budget, and expenses incurred are reported to the headquarters separately. The headquarters also administers all expense incurred for commercial shipping and for claims against the Military Sea Transportation Service.

Normally, at least three to six months of experience is needed before definite expenditure trends can be established. Reports on the status of the budgets, therefore, are required only on a quarterly basis. These reports are submitted by all cost control centers on the forms illustrated in PLATES VIII and IX. If, after a suitable period of time, it appears that a group account will be over-expended, the officer responsible for the administering of the account must report the circumstances to the Commander and request authority to over-expend. These requests must be completely justified, and must include a statement as to whether any of the other group accounts under his control appears to be over-funded. On the basis of these requests, adjustments are made to the account allocations by the Comptroller of the headquarters. Transfers among the four major types of shipping, however, are not permitted except for the reasons previously stated.

In summary, there are two levels of budgetary controls within the Military Sea Transportation Service: at the point where the budget estimates were first developed, and at the headquarters. Overhead is

MSTS FORM 7130/2 (7-61)

BUDGET STATEMENT - OPERATING EXPENSE

REPORT CONTROL SYMBOL MSTS 7130-2

LINE	DESCRIPTION	ACCT. NO	BUDGET	EXPENSE	EXPENSE (OVER) UNDER BUDGET
MSTS NUCLEUS SHIPS EXPENSE					
SALARIES AND WAGES AND RELATED EXPENSE					
1	Regular Time	5101			
2	Overtime	5102			
3	Relief Officers	5103			
4	Bonuses	5104			
5	Annual, Sick and Military Leave	5108			
6	Awaiting Assignment	5110			
7	Indigenous Labor	5111			
8	TOTAL SALARIES AND WAGES				
9	Employer Health Benefits Contributions, Civilian Marine	5112			
10	Employer Retirement Contributions, Civilian Marine	5113			
11	Employer Life Insurance Contributions, Civilian Marine	5114			
12	Employer Social Security Taxes, Civilian Marine	5115			
13	TOTAL CONTROL GROUP 1				
14	INDOCTRINATION AND TRAINING (CONTROL GROUP 2)	5109			
15	PROPULSION FUEL (CONTROL GROUP 3)	5126			
SUBSISTENCE					
16	Crew	5121			
17	Cabin Mess	5123			
18	Troop Mess	5124			
19	TOTAL CONTROL GROUP 4				
OTHER SHIP OPERATING EXPENSES					
20	Travel	5116			
21	Cash in Lieu of Subsistence and Quarters	5120			
22	Consumable Supplies	5130			
23	Bedding, Tableware, etc.	5133			
24	Medical and Dental Expenses	5136			
25	Transportation and Handling of Supplies	5138			
26	Laundry Expenses	5148			
27	Port Expenses	5153			
28	Repairs to Special Material in Store	5167			
29	Loss on Special Material by Disposal	5169			
30	Loss (Gain) on Special Material by Inventory and Accounting	5170			
31	Terminal Demurrage	5198			
32	Miscellaneous	5199			
33	TOTAL CONTROL GROUP 5				
34	SHIP EQUIPAGE (CONTROL GROUP 6)	5171			
35	MAINTENANCE AND REPAIR OF SHIPS (CONTROL GROUP 7)	5180			
36	ALTERATION OF SHIPS, UNPROGRAMMED (CONTROL GROUP 8)	5185			
37	ALTERATION OF SHIPS, PROGRAMMED (CONTROL GROUP 9)	5186			
38	ACTIVATION OF SHIPS (CONTROL GROUP 10)	5190			
39	INACTIVATION OF SHIPS (CONTROL GROUP 11)	5191			
40	EXTRAORDINARY REPAIRS (CONTROL GROUP 12)	5192			
41	TOTAL MSTS NUCLEUS SHIPS EXPENSE				
BREAKDOWN OF TOTAL MSTS NUCLEUS SHIP EXPENSES					
42	Cargo				
43	Passengers				
44	Petroleum				
45	Project				
46	TOTAL				
COMMERCIAL SHIPPING EXPENSE					
47	Shipping Contracts	5204			
48	Berth Term Shipments	5205			
49	TOTAL CONTROL GROUP 13				
LST CONTRACTS					
50	LST CONTRACTS (CONTROL GROUP 14)	5206			

SIGNATURE

FOR MONTH OF _____ OR CUMULATIVE FROM 1 JULY _____ TO _____

NAME OF COMMAND _____

MSTS FORM 7130/3 (7-61)

BUDGET STATEMENT - OVERHEAD EXPENSES

REPORT CONTROL SYMBOL MSTS 7130-3

LINE	DESCRIPTION	ACCT. NO.	BUDGET	EXPENSE	EXPENSE (OVER) UNDER BUDGET
SALARIES AND WAGES AND RELATED EXPENSES					
1	Regular Time, Classified	5301			
2	Overtime, Classified	5302			
3	Annual, Sick, and Military Leave, Classified	5303			
4	Regular Time, Unclassified	5311			
5	Overtime, Unclassified	5312			
6	Annual, Sick, and Military Leave, Unclassified	5313			
7	Indigenous Labor	5314			
8	TOTAL SALARIES AND WAGES				
9	Employer Health Benefits Contributions, Civilians Ashore	5322			
10	Employer Retirement Contributions, Civilians Ashore	5323			
11	Employer Life Insurance Contributions, Civilians Ashore	5324			
12	Employer Social Security Taxes, Civilians Ashore	5325			
13	TOTAL CONTROL GROUP 1				
14	INDOCTRINATION AND TRAINING EXPENSES (CONTROL GROUP 2)	5317			
15	DESIGN, DEVELOPMENT AND EXPERIMENT EXPENSES, SHIPS (CONTROL GROUP 3)	5319			
16	TRAVEL (CONTROL GROUP 4)	5320			
17	PUBLIC INFORMATION (CONTROL GROUP 5)	5321			
OTHER EXPENSES					
18	Occupancy of Premises	5330			
19	Office Equipment Rental	5331			
20	Office Expenses, Stationery and Postage	5332			
21	Communications	5340			
22	Automotive Equipment Expense	5360			
23	Operational Equipment Expense	5363			
24	Office Equipment and Maintenance	5371			
25	Medical Expenses, Civilian Personnel	5391			
26	Cash in Lieu of Quarters	5392			
27	Other Overhead Expenses	5399			
28	TOTAL CONTROL GROUP 6				
29					
30					
31	TOTAL CONTROL GROUPS				
32	Reimbursable Overhead Expenses	4610			
33	NET OVERHEAD EXPENSE				

REMARKS

SIGNATURE _____

FOR MONTH OF _____ OR CUMULATIVE FROM 1 JULY _____ TO _____

controlled by the major group accounts; nucleus fleet operating expenses by type of shipping and by major group account within each type. Status reports are submitted to the headquarters quarterly, and variances investigated.

Reports and Statistics

As pointed out in earlier chapters, the Commander carries out his mission through the implementation of the operating force plan, or if you will, the financial operating plan. Once this plan is put into effect, it becomes necessary to provide the Commander with a continuous stream of information; data which will permit him to track the progress being made towards his present goals. The reports which provide this data are classified as status reports and progress reports. The former provide him with the means of determining where he is and where he has been. The latter show performance relative to the planned objective over a period of time. Progress reports are intended "to provide a means of measuring and evaluating progress and to provide adequate and reliable program data to aid management in formulating executive and policy decisions."⁴⁷

The data needed for control is accumulated at all cost control centers and is submitted to the headquarters in the form of financial statements, billing reports, detailed expense reports for the nucleus ships, ship utilization reports, inventory reports, lift statistics, etc. After analysing the data, the headquarters publishes its interpretations in a monthly abstract of statistical highlights, a pocket sized booklet which

⁴⁷U.S. Senate, Senate Preparedness Sub Committee No. 3, Hearings, Implementation of Title IV, National Security Act of 1947, as Amended, Appendix B.

contains brief narrative and statistical and financial data on all program areas of interest to top level management. Every quarter, the monthly abstracts are replaced by a consolidated report.⁴⁸ The quarterly report is published in two parts. The first part is primarily narrative in form and provides a review of the progress in each program area since the beginning of the current fiscal year. It compares and evaluates actual performance against budgeted objectives and explains variations from the plan. It is also used to disseminate special reports on matters of particular interest to top management. Topics which are usually included in the report consist of: (1) analyses of financial statements, (2) analyses of income and expense statements, (3) distribution of costs, (4) payments to commercial shipping lines, (5) tariff changes, (6) analyses of operations by major type of service provided, (7) distribution of personnel, and (8) special reports. Part two is completely statistical in nature and provides data on the various areas of operation, including the status of shipments with regard to the requirements placed on the Commander by substantive legislation.

Other types of control reports are utilized within the headquarters. Typical of such reports are those which are used to determine the profitability of each of the nucleus ships. The method of presenting this information to the Commander is illustrated in PLATE X. Reports of this type are usually submitted to him on an exception basis and are accompanied by a narrative statement more fully explaining the variance between income and expense.⁴⁹ Illustrations of other types of data collected are shown in PLATES XI to XIV.

⁴⁸ op. cit. MSTs Report 7700-2, Parts I and II.

⁴⁹ _____ . Personal interview with Mr. T. Rothman, Head, Analysis Branch, Office of the Comptroller, Military Sea Transportation Service on 30 March, 1962.

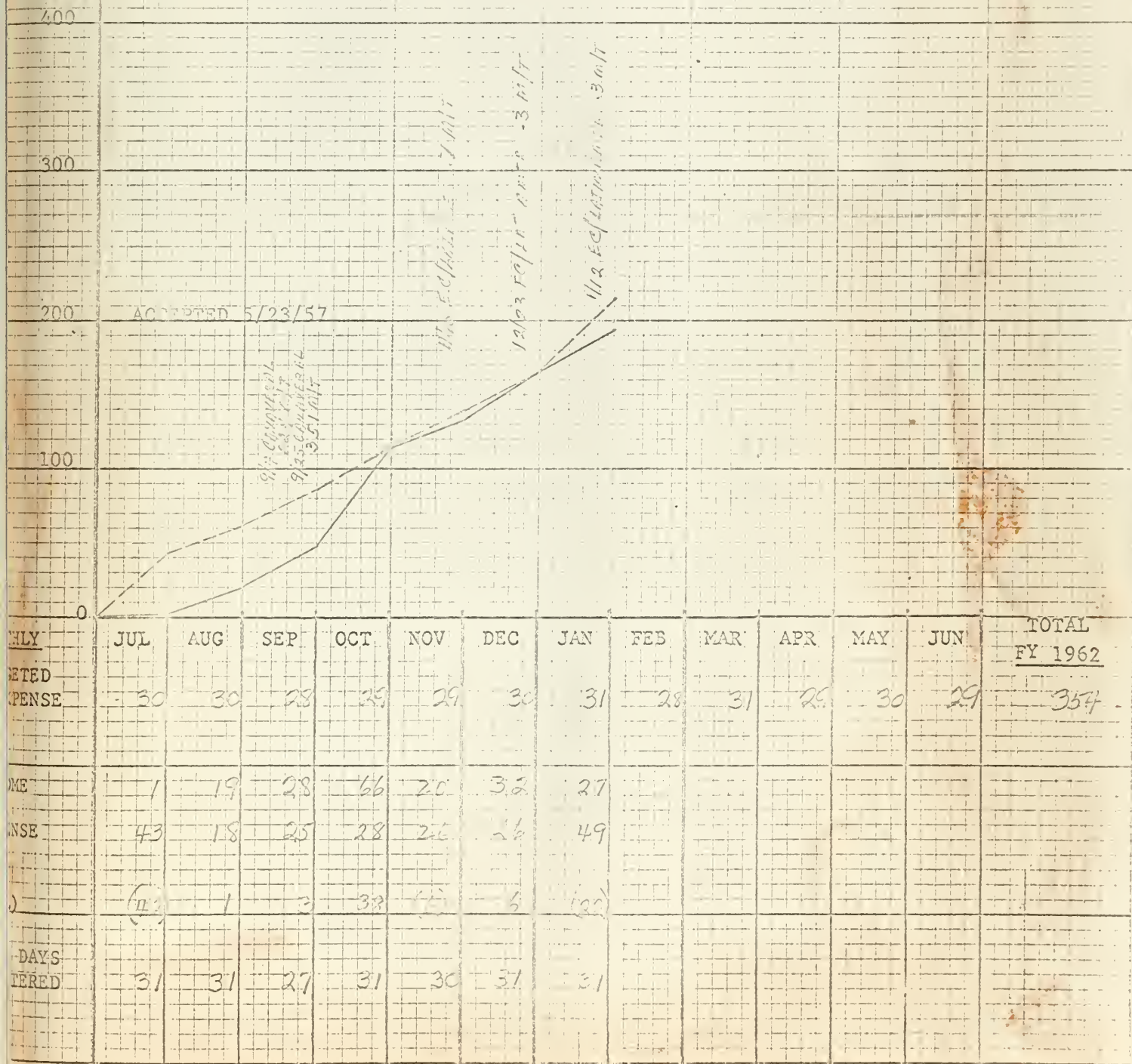
FY 1962

0
DOLLARS1 SQUARE =
\$10,000

ACTUAL

INCOME ———

EXPENSE - - - - -



COMMERCIAL DISPATCH

MISC.

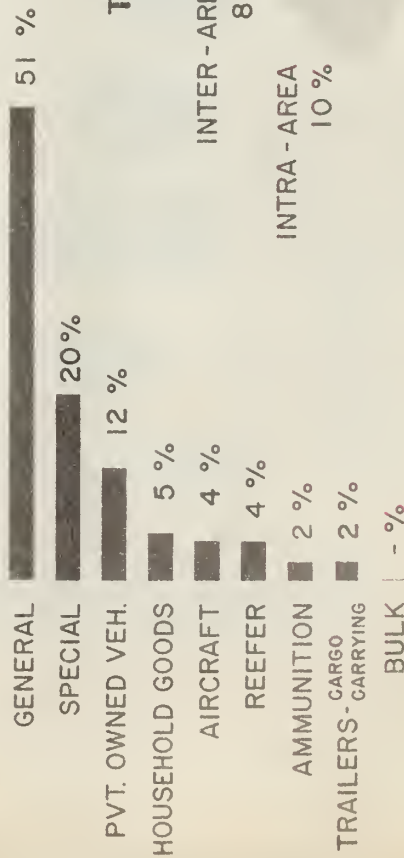
1

TC-4

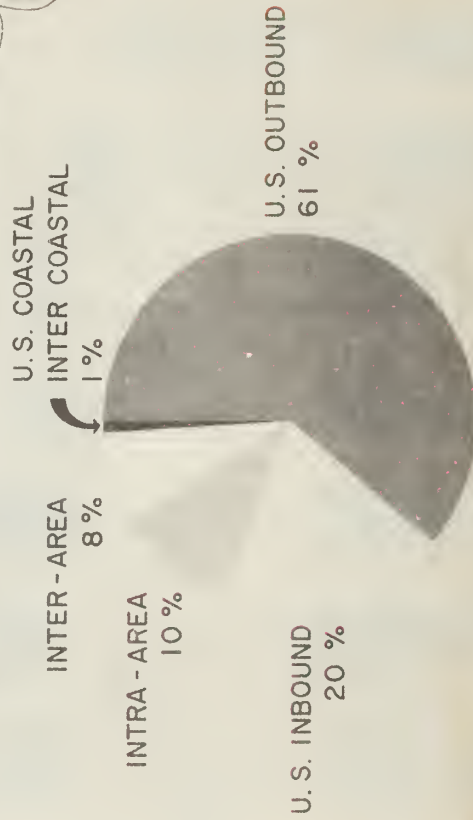
MSTS DRY CARGO TRAFFIC - FY 1961

TOTAL LIFT
10,799,691 M/T'S

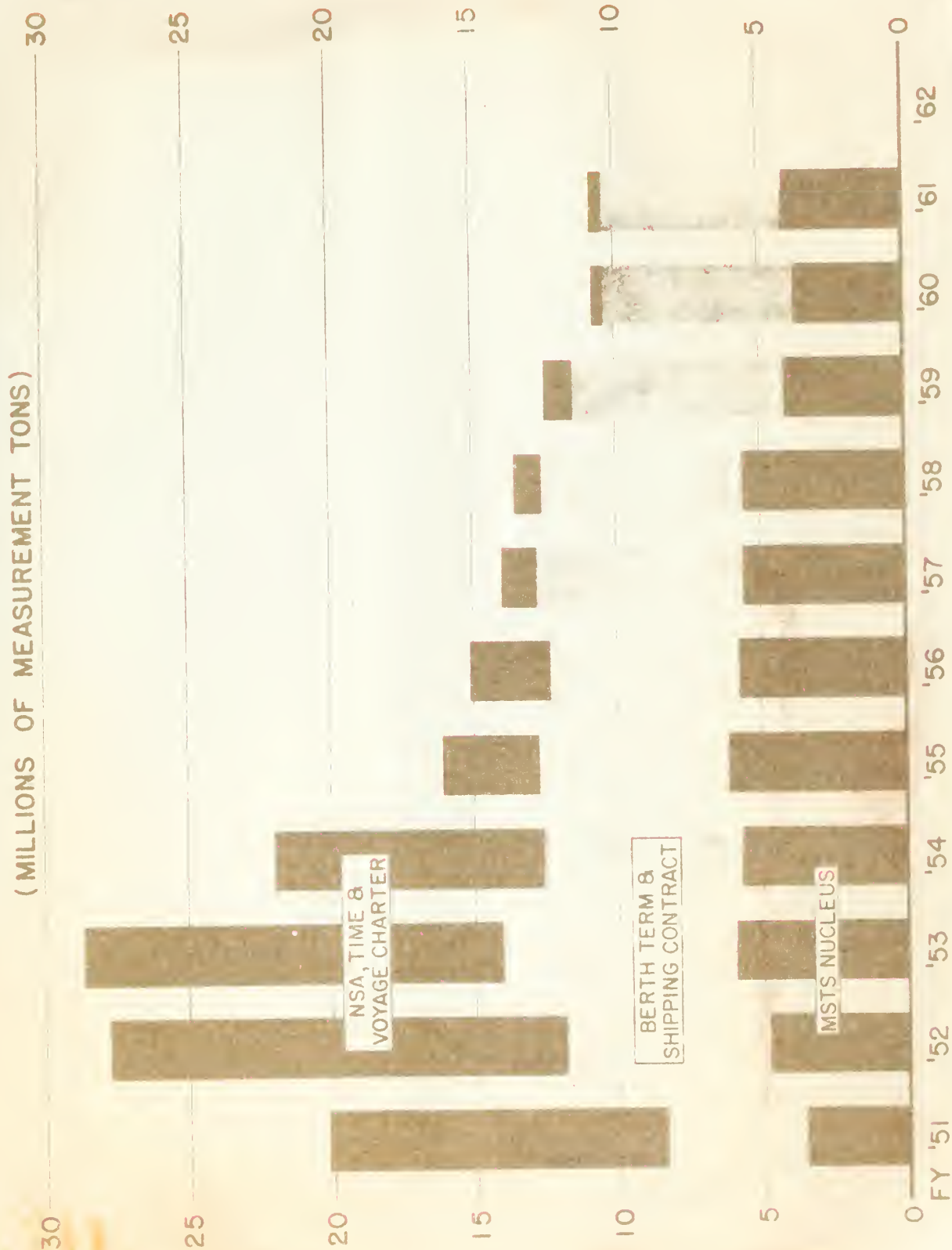
COMMODITY



TRAFFIC AREA

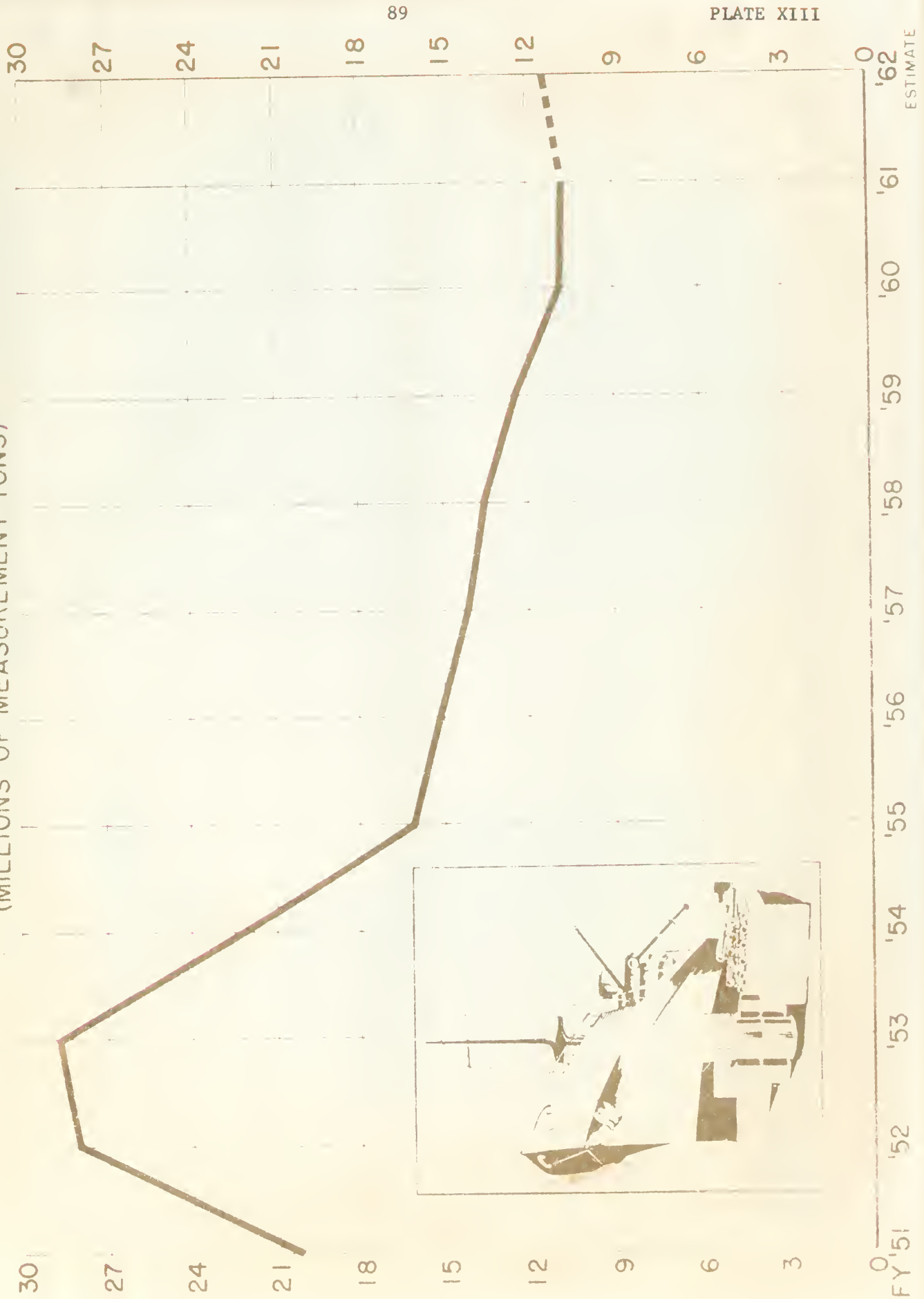


MSTS DRY CARGO LIFT BY CARRIER



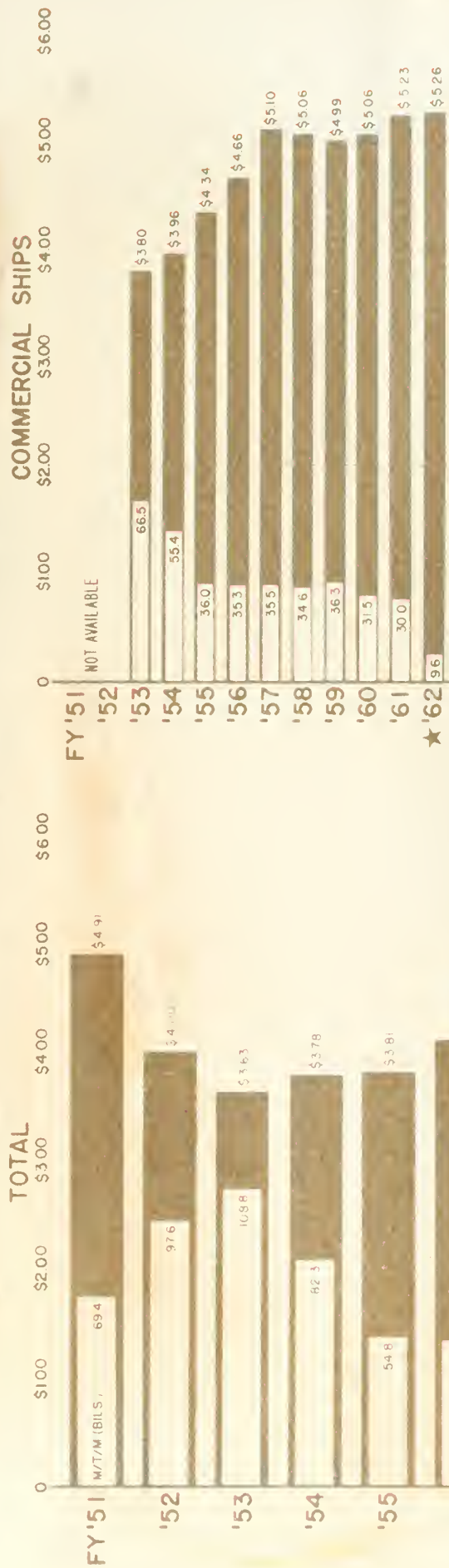
TOTAL MSTs DRY CARGO LIFT BY FISCAL YEAR

(MILLIONS OF MEASUREMENT TONS)

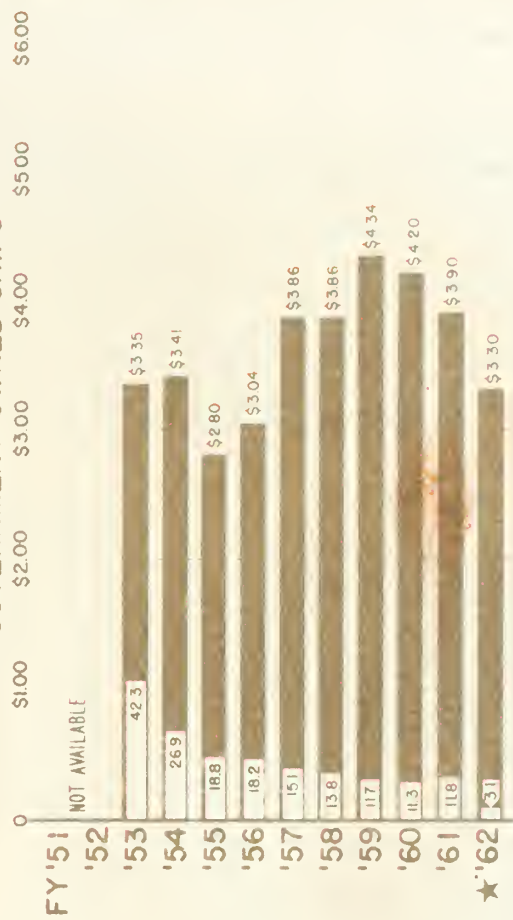


CARGO COST PER 1,000 MEASUREMENT TON MILES

B5



GOVERNMENT OWNED SHIPS



★ 1st QUARTER FY '62

Each Area Commander also accumulates and publishes interpreted statistical data on his local operation. Although no requirement exists, copies of these quarterly analyses are submitted to the headquarters. The reports, while covering subjects which are common to other Area Commanders, can not be compared because of the different methods of presentation.

Management Engineering

Although the organizational structure of the headquarters calls for a management engineer, the position is currently unoccupied. Therefore, formal work simplification and work measurement programs are non-existent. Control through engineered standards is not employed.

CHAPTER VI

SUMMARY

"The past ten years of MSTS operations are but a prologue to things to come that will test the readiness and resourcefulness of the Military Sea Transportation Service.

.....
As the years roll on we will become ever more adept at meeting the responsibilities thrust upon us. Our experience in meeting past crises will stand us in good stead. Our flexibility and our attitude that nothing is really impossible has already become a byword among the Services who rely upon us, for the intricate and complex lifts of passengers, cargo, and petroleum products throughout the world." 50

Before concluding this paper, I wish to emphasize several points.

As stated in the preface, this paper has been prepared primarily for self-education. The pattern used in its development, therefore, has been one of research and description. No attempt has been made to uncover weaknesses in the system of fiscal management as employed by the Military Sea Transportation Service. Its purpose is merely to provide a general background on the operations of the agency with particular emphasis on the function of comptrollership.

We have been exposed to a brief history of government controlled shipping, including the establishment of the Military Sea Transportation Service. Its relationships with other government departments, the armed

⁵⁰ U.S., Dept. of the Navy, The United States Navy's Military Sea Transportation Service, (Washington, D.C.: U.S. Government Printing Office, 1959) introductory remarks VADM Roy A. Gano, United States Navy.

forces, and the Chief of Naval Operations have been touched upon. We have noted that the agency fulfills a vital role in the defense of our country; that its function can not be performed in its entirety by private enterprise or by any other source; and that it has proven itself capable of accomplishing its mission in times of peace or war. Its value has been clearly demonstrated.

Financial management has been discussed, for the most part, in general terms, perhaps at the risk of over-simplifying this complex function. We have reviewed the organization of the Office of the Comptroller. We have been introduced to the accounting and reporting system; a system which was built to specifications; a system which was designed to highlight the unique aspects of the function of ocean transportation; a communications network which provides, in a timely manner, the financial and statistical data needed to assist top management in the decision making process. We have studied the process of financial planning, from the development of the broad estimate of the situation in the form of the planning budget to the approval of the detailed financial operating plan. We have been advised of the influences and the requirements placed upon the agency by substantive legislation. We have been exposed to the execution phase of the budget process and to the controls which are established to insure each program is administered and completed economically and within budgeted limits. Finally, we have taken cognizance of the feedback of information to the Office of the Comptroller where it is analyzed, interpreted, synthesized, and presented on an exception basis to the Commander or his designated representative.

Financial management is an important element to the future of the Military Sea Transportation Service. Its short run contributions to a successful operation are often intangible. To the armed forces, the Congress, and the Department of Defense, the effectiveness of financial management in the Military Sea Transportation Service is measured in terms of value received per appropriated dollar. In the long run, however, the true mark of effective comptrollership is a reflection of the ability to provide the Commander with the instruments he needs to guide him towards his ultimate goal -- efficiently and economically.

MSTS BUDGET
NAVY INDUSTRIAL FUND
FISCAL YEAR 1962

APPENDIX

DEPARTMENT OF THE NAVY • MILITARY SEA TRANSPORTATION SERVICE • WASHINGTON 25, D. C.



MILITARY SEA TRANSPORTATION SERVICE

FISCAL YEAR 1962 BUDGET

INDEX

<u>EXHIBIT</u>	<u>TITLE</u>	<u>PAGE NUMBER</u>
A	Balance Sheet	2 and 3
B	Statement of Income and Expense	4
C	Budgeted Income by Sponsor, FY 1962	5
D	Statement of Operating Expense - MSTs Nucleus Ships	6
E	Statement of Overhead Expenses	7
F	Summary of Changes in Capital	8

MILITARY SEA TRANSPORTATION SERVICE
BALANCE SHEET
AS OF 30 JUNE

	1960 ACTUAL	1961 ACTUAL	1962 ESTIMATE
CASH - NAVY INDUSTRIAL FUND	\$13,402,424	\$ 39,652,272	\$ 36,827,000
ACCOUNTS RECEIVABLE:			
Traffic	\$83,193,334	\$64,219,833	\$89,200,000
Miscellaneous:			
Government Agencies	2,074,279	604,458	604,000
Other	478,336	235,064	235,000
Total Accounts Receivable	85,745,949	65,059,355	70,039,000
INVENTORIES:			
Special Material:	\$12,910,980	\$12,553,672	\$13,054,000
Consumable Supplies, Ships	7,147,225	2,209,019	2,209,000
Subsistence Stores	1,451,241	1,491,040	1,491,000
Propulsion Fuel	1,246,934	1,370,283	1,500,000
Bedding, Tableware, etc.	2,396,760	2,097,102	2,097,000
Shop Stores	51,629	59,305	59,000
Less: Reserve for Reimbursable	\$20,208,769	\$19,780,421	\$20,410,000
Shipboard Inventories	690,048	774,446	774,000
Total Inventories	19,514,721	19,005,975	19,636,000
DEFERRED CHARGES:			
Ship Activations - Unamortized Portion	\$ 1,780,941	\$ 72,593	\$ -
Miscellaneous - Deferred Charges and			
Prepaid Expense	2,363,278	2,434,248	1,934,000
Total Deferred Charges	4,144,219	2,506,841	1,934,000
TOTAL ASSETS	\$122,807,313	\$126,224,443	\$128,436,000

MILITARY SEA TRANSPORTATION SERVICE
BALANCE SHEET
AS OF 30 JUNE

	1960 ACTUAL	1961 ACTUAL	1962 ESTIMATE
ACCOUNTS PAYABLE:			
Government Agencies:			
S F 1080's Payable	\$ 288,146	\$ 598,270	\$ 644,000
Withholdings from Employees	184,701	323,052	323,000
Miscellaneous	219,787	702,428	756,000
Other:			
Vouchers Payable	2,993,448	2,990,626	3,220,000
Shipping Contracts payable (withheld portion)	2,136,624	2,306,055	2,485,000
Employee Allotments Payable	285,324	294,343	294,000
Miscellaneous	70,070	44,362	47,000
Total Accounts Payable	\$ 6,178,100	\$ 7,261,339	\$ 7,769,000
ACCRUED LIABILITIES:			
Time and Voyage Charters	\$ 4,148,709	\$ 4,339,064	\$ 4,640,000
Shipping Contracts	11,736,604	9,872,961	10,632,000
Berth Term Contracts	4,174,302	3,905,482	4,209,000
Contract Operated Tankers	2,541,678	2,558,136	2,556,000
ISI Contracts	765,943	218,768	218,000
Annulment Liens	2,763,491	3,055,631	3,056,000
Civilian Employees	2,599,417	3,142,911	3,381,000
Supplies and Service	2,750,129	2,857,922	3,078,000
Repairs and Repair of Ships	725,879	235,225	235,000
NSA Agreements	2,001,227	2,132,565	2,133,000
Salaries and Wages	161,358	228,033	228,000
Employer's Taxes and Contributions	394,702	439,209	439,000
Pay Allowances, Japanese Nationals			
Total Accrued Liabilities	33,268,734	33,087,907	34,905,000
UNTERMINATED VOYAGES			
	4,699,817	5,230,694	5,299,436
RESERVES:			
Claims			
Inactivation of Ships	\$ 3,638,973	\$ 3,554,819	\$ 3,554,000
Maintenance and Repair of Ships	117,000	4,933,665	5,234,000
Accident and Damage Repairs	5,116,712	1,101,651	1,100,000
Extraordinary Repairs	1,192,503	1,034,804	555,000
Total Reserves	10,687,259	10,624,939	10,443,000
TOTAL LIABILITIES ^{1/}			
	\$ 54,833,910	\$ 56,204,879	\$ 58,416,436
CORPUS OF FUND			
	\$ 67,973,403	\$ 70,019,564	\$ 70,019,564
TOTAL LIABILITIES AND CORPUS			
	\$122,807,313	\$126,224,443	\$128,436,000
1/ Excluded Obligations and Commitments on NSTS			
Contracts for Services & Supplies not Received:			
Maintenance and Repair Contracts	\$ 750,000	\$ 565,000	\$ 750,000
Contract Operated Tankers	19,480,000	123,100,000	98,480,000
Long Term (5 Year) Tanker Contracts	157,750,000	115,029,000	72,307,000
Other Supplies and Services	1,024,000	890,000	1,000,000
Total	\$179,004,000	\$239,630,000	\$172,537,000

STATEMENT OF INCOME AND EXPENSE

Description	Fiscal Year 1960 Actual			Fiscal Year 1961 Actual			Fiscal Year 1962 Budget		
	Income	Expense	Income Over (Under) Expense	Income	Expense	Income Over (Under) Expense	Income	Expense	Income Over (Under) Expense
Cargo Ships									
MSTS Nucleus Ships	\$ 53,193,789	\$ 40,976,381	\$ 12,217,408	\$ 53,731,090	\$ 38,744,788	\$ 14,986,302	\$ 52,887,072	\$ 37,998,732	\$ 14,888,340
Time Charters	4,201,834	3,911,793	290,041	5,697,177	4,672,330	1,024,847	3,292,740	4,031,007	(738,267)
Voyage Charters	749,108	810,894	(61,786)	1,058,262	1,066,013	(7,751)	12,600	12,600	-0-
Shipping Contracts	128,745,523	138,137,940	(9,388,417)	124,697,484	135,418,428	(10,720,944)	158,397,544	167,708,433	(9,310,909)
Berth Term Shipments	12,595,057	17,626,752	(5,031,695)	12,245,196	17,748,216	(5,503,020)	13,991,250	19,977,006	(5,985,756)
LST Contracts	5,489,833	4,984,498	505,335	6,268,445	4,510,295	1,770,150	5,338,400	4,245,868	1,092,532
NSA Agreements	3,329,859	3,985,161	(665,302)	3,968,691	3,921,072	47,619	3,530,800	3,476,740	54,060
U. S. Fleet Ships	75,735	73,830	1,905	60,948	60,948	-0-	71,058	71,058	-0-
Total	\$208,384,738	\$210,507,249	\$ (2,122,511)	\$207,739,293	\$206,142,090	\$ 1,597,203	\$237,521,464	\$237,521,464	-0-
Passenger Ships									
MSTS Nucleus Ships	\$ 53,848,606	\$ 50,836,975	\$ 3,011,631	\$ 47,773,304	\$ 48,368,729	\$ (595,425)	\$ 46,388,976	\$ 46,388,976	-0-
Shipping Contracts	5,111,606	8,679,228	(3,567,622)	961,686	1,322,448	(360,762)	550,809	550,809	-0-
Total	\$ 58,960,212	\$ 59,516,203	\$ (555,991)	\$ 48,734,990	\$ 49,691,177	\$ (956,187)	\$ 46,939,785	\$ 46,939,785	-0-
Tanker Ships									
MSTS Nucleus Ships	\$ 2,549,774	\$ 2,296,963	\$ 252,811	\$ 2,725,698	\$ 2,307,425	\$ 418,273	\$ 3,662,700	\$ 3,065,667	\$ 597,033
Time Charters	38,417,384	43,207,266	(4,789,882)	32,825,805	38,830,355	(6,004,550)	5,422,524	4,233,566	1,188,958
Voyage Charters	11,872,073	7,309,880	4,562,193	24,026,812	18,372,812	5,654,000	14,916,884	12,075,573	2,841,311
Consecutive Voyage Charters	-0-	-0-	-0-	-0-	-0-	-0-	31,099,329	37,262,770	(6,163,441)
Contract Operated Ships	27,128,480	27,441,152	(312,672)	24,858,607	23,628,654	1,229,953	22,971,576	21,411,164	1,560,412
Shipping Contracts	195,565	240,789	(45,224)	137,679	189,870	(32,191)	186,037	210,310	(24,273)
U. S. Fleet Ships	4,655	4,655	-0-	37,392	37,392	-0-	-0-	-0-	-0-
Total	\$ 80,167,931	\$ 80,500,705	\$ (332,774)	\$ 84,631,993	\$ 83,366,508	\$ 1,265,485	\$ 78,259,050	\$ 78,259,050	-0-
Project Ships	\$ 6,866,600	\$ 6,866,600	\$ -0-	\$ 10,283,542	\$ 10,283,542	\$ -0-	\$ 12,270,238	\$ 12,270,238	-0-
Total Traffic Operations	\$354,379,481	\$357,390,757	\$ (3,011,276)	\$351,389,818	\$349,483,317	\$ 1,906,501	\$374,990,537	\$374,990,537	-0-
Reimbursable Items Non-Tariff									
Arctic Operations	\$ 1,245,039	\$ 1,245,039	\$ -0-	\$ 221,908	\$ 221,908	\$ -0-	\$ 300,000	\$ 300,000	-0-
Other Reimbursables	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Non-Operating Income	158,856	-0-	158,856	167,278	-0-	167,278	-0-	-0-	-0-
Grand Total	\$355,783,376	\$358,635,796	\$ (2,852,420)	\$351,779,004	\$349,705,225	\$ 2,073,779	\$375,290,537	\$375,290,537	-0-
1/ Included in Time Charters									
Cargo (M/T) point-to-point									
Passengers cabin revenue	10,581,074	10,581,074		10,632,145	10,632,145		11,274,627	11,274,627	
troop revenue	146,858	146,858		113,223	113,223		108,004	108,004	
total revenue	258,746	258,746		249,885	249,885		271,576	271,576	
total revenue	405,604	405,604		363,108	363,108		379,580	379,580	
POL (L/T) point-to-point	14,415,555	14,415,555		15,898,314	15,898,314		14,103,800	14,103,800	
Per Diem Ships (ship days)	9,508	9,508		5,566	5,566		5,384	5,384	

MILITARY SEA TRANSPORTATION SERVICE
BUDGETED INCOME BY SPONSOR, FY 1962

EXHIBIT C

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	ARMY			NAVY			MARINE CORPS			AIR FORCE			OTHER			TOTAL		
	Units	Income		Units	Income		Units	Income		Units	Income		Units	Income		Units	Income	
CARGO																		
General	4,101,200	\$ 85,868,273		1,056,000	\$20,783,758		40,905	\$ 787,436		1,457,767	\$30,554,357		-0-	-0-		6,655,872	\$137,993,824	
Retrograde Empty Cones	344,300	2,637,046		-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-		344,300	2,637,046	
Special	1,222,000	23,370,718		188,900	4,293,131		32,200	888,192		231,705	5,391,510		-0-	-0-		1,894,805	35,943,551	
Privately-owned Vehicles	630,900	13,565,669		220,900	4,374,984		22,545	346,596		561,257	12,818,436		-0-	-0-		1,435,602	31,105,665	
Cargo-Carrying Trailers	219,516	4,258,610		-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-		219,516	4,258,610	
Reefer	270,400	9,913,891		84,000	2,837,083		100	3,072		43,008	1,579,932		-0-	-0-		397,508	14,333,978	
Ammo	82,400	3,983,521		21,000	979,754		3,900	173,409		30,892	1,121,319		-0-	-0-		138,192	6,258,003	
Aircraft	7,300	110,373		248,700	3,553,480		-0-	-0-		132,832	2,128,616		-0-	-0-		388,832	5,792,469	
Sub-Total	6,878,016	\$145,708,101		1,819,500	\$36,822,190		99,650	\$2,198,705		2,477,461	\$53,594,170		-0-	-0-		11,274,627	\$238,323,166	
Per Diam Use of Cargo Ships	1,230	1,290,310		-0-	1,602,674		-0-	-0-		1,950	1,684,714		103	\$ 20,600		4,309	\$4,598,298	
TOTAL CARGO	-	\$146,998,411		-	\$38,424,864		-	\$2,198,705		-	\$55,278,884		-	\$ 20,600		-	\$242,921,464	1/
PASSENGERS																		
Revenue Cabin (Dependents)	48,734	\$ 8,138,928		23,310	\$ 5,062,896		1,257	\$ 206,830		2,400	\$ 520,209		-0-	-0-		75,701	\$ 13,928,863	
Revenue Cabin (Other)	23,125	4,303,691		7,973	1,795,962		1,135	298,835		-0-	-0-		-0-	-0-		32,303	6,398,488	
Total Revenue Cabin	71,859	\$12,442,619		31,283	\$ 6,858,858		2,392	\$ 505,665		2,400	\$ 520,209		-0-	-0-		108,004	\$ 20,327,351	
Revenue Troop	212,687	14,128,330		23,908	2,071,653		33,600	3,133,208		1,381	85,382		-0-	-0-		271,576	19,418,773	
Dependents	-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-		-0-	268,090	
Subsistence Collection	-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-		-0-	1,002,571	
Medical Services	-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-		-0-	-0-	
Sub-Total	284,616	\$ 26,570,949		55,191	\$ 8,930,511		35,992	\$3,638,873		3,781	\$ 605,791		-0-	-0-		379,580	\$ 41,016,785	
Per Diam Use of Transports	20	101,200		-0-	-0-		-0-	-0-		-0-	47	\$41,800	-0-	-0-		67	\$53,000	
TOTAL PASSENGERS	-	\$ 26,672,149		-	\$ 8,930,511		-	\$3,638,873		-	\$ 421,591		-	-0-		-	\$ 41,539,785	2/
POL																		
Black	-0-	-0-		4,936,700	\$31,155,324		-0-	-0-		-0-	-0-		-0-	-0-		4,936,700	\$ 31,155,324	
Clean	2,708,700	\$16,983,218		1,585,300	6,406,555		-0-	-0-		4,873,100	20,997,833		-0-	-0-		9,167,000	\$ 38,267,606	
Sub-Total	2,708,700	\$16,983,218		6,522,000	\$37,561,879		-0-	-0-		4,873,100	\$20,997,833		-0-	-0-		14,103,800	\$ 75,423,330	
Per Diam Use of Tankers	-0-	-0-		498	1,095,940		-0-	-0-		510	1,620,180		-0-	-0-		1,008	\$ 2,716,120	
TOTAL POL	-	\$16,983,218		-	\$38,657,819		-	-0-		-	\$22,618,013		-	-0-		-	\$ 78,139,056	
PROJECT SHIPS																		
Arctic Operations	-0-	-0-		-	\$11,646,543		-0-	-0-		-0-	-0-		-0-	\$ 623,695		-	\$ 12,270,238	
Other Reimbursables	-	\$190,653,778		-	\$97,659,737		-	\$5,837,578		-	\$78,924,488		-	-		-	\$374,990,537	
TOTAL PROJECT SHIPS	-	\$190,653,778		-	\$97,659,737		-	\$5,837,578		-	\$78,924,488		-	-		-	\$375,290,537	
REIMBURSABLE NON-TARIFF ITEMS																		
Arctic Operations	-	-		-	-		-	-		-	\$ 300,000		-	-		-	\$ 300,000	
Other Reimbursables	-	-		-	-		-	-		-	\$ 300,000		-	-		-	\$ 300,000	
TOTAL REIMBURSABLE ITEMS	-	-		-	-		-	-		-	\$ 300,000		-	-		-	\$ 300,000	
GRAND TOTAL	-	\$190,653,778		-	\$97,659,737		-	\$5,837,578		-	\$79,224,488		-	-		-	\$375,290,537	

1/ An estimated \$5,400,000 will be credited to the passenger ships; \$237,521,464 to the cargo ships (see Exhibit B).

2/ After an estimated \$5,400,000 is credited from cargo, the total passenger ship income is estimated to be \$46,939,785.

MILITARY SEA TRANSPORTATION SERVICE
STATEMENT OF OPERATING EXPENSE - NSTS NUCLEUS SHIPS

EXHIBIT D

Description	FY 1960 Actual	FY 1961 Actual	FY 1962 Budget
Salaries and Wages, Civilian Marine			
Regular Time	\$28,034,198	\$27,408,880	\$28,985,600
Overtime	7,446,336	7,639,226	7,958,100
Relief Officers	-	464,474	504,500
Annual, Sick, and Military Leave	4,046,160	3,876,970	4,081,800
Indoctrination and Training	29,977	25,854	32,700
Bonuses	144,163	178,155	168,200
Awaiting Assignment	132,161	107,704	108,500
Employer Health Contributions, Civilian Marine	-	197,739	212,300
Employer Retirement Contributions, Civilian Marine	1939,070	1,833,334	2,005,700
Employer Life Insurance Contributions, Civilian Marine	106,740	98,753	107,800
Employer Social Security Taxes, Civilian Marine	76,431	122,887	109,100
Total Civilian Marine	\$41,953,236	\$42,953,976	\$44,274,300
Indigenous Labor	\$ 521,246	\$ 475,314	\$ 471,300
Total Salaries and Wages	\$42,474,482	\$42,429,290	\$44,745,600
Materials and Supplies			
Subsistence:			
Crew	\$ 2,858,108	\$ 2,744,974	\$ 2,902,400
Cabin Mess	1,669,352	1,543,212	1,723,800
Troop Mess	3,357,942	3,319,337	3,312,200
Total Subsistence	\$ 7,885,402	\$ 7,607,523	\$ 7,938,400
Propulsion Fuel	\$11,035,414	\$11,013,390	\$11,779,600
Consumable Supply	2,229,249	2,271,115	2,087,200
Bedding, Tableware, etc.	323,195	358,685	331,800
Loss by Disposal	500,332	130,344	192,000
Loss (Gain) by Inventory, etc.	(314,966)	(206,030)	-
Total Materials and Supplies	\$21,660,646	\$21,195,027	\$22,329,000
Maintenance, Repair, Etc.			
Repairs to Special Materials	\$ 14,668	\$ 3,764	\$ 16,000
Ship Equipment	2,232,127	1,499,264	891,000
Maintenance and Repair	12,569,704	12,356,984	13,587,300
Accident and Damage	941,624	782,000	825,000
Alterations, Unprogrammed	223,291	268,073	271,800
Alterations, Programmed	1,048,366	867,822	1,980,600
Activations	3,644,138	3,284,875	160,000
Inactivation	1,218,763	218,351	39,400
Extraordinary Repairs	2,856,691	2,262,411	1,985,000
Total Maintenance, Repairs, etc.	\$24,751,572	\$21,543,354	\$19,756,100
Other Ship Operating Expenses			
Travel	\$ 120,072	\$ 177,107	\$ 185,100
Cash in Lieu of Subsistence and Quarters	94,141	90,580	42,300
Medical and Dental Expenses	143,839	173,689	172,700
Transportation and Handling of Supplies	1,034,821	1,086,060	1,060,100
Laundry Expenses	217,731	208,663	212,200
Port Charges	2,064,245	2,161,571	2,090,500
Terminal Demurrage	-	566	-
Miscellaneous	135,480	494,844	50,100
Total Other Expenses	\$ 3,811,329	\$ 4,393,120	\$ 3,813,000
Total Operating Expenses	\$92,698,029*	\$89,560,791	\$90,643,700*
* Excludes Miscellaneous Reimbursable Expense	\$ 719,379	\$ 2,707,201	\$ 550,600

MILITARY SEA TRANSPORTATION SERVICE
STATEMENT OF OVERHEAD EXPENSES

<u>DESCRIPTION</u>	<u>FY 1961</u> <u>ACTUAL</u>	<u>FY 1962</u> <u>BUDGET</u>
<u>Salaries and Wages Expense</u>		
Regular Time	\$ 7,365,732	\$ 7,575,300
Overtime	174,311	172,100
Annual, Sick and Military Leave	1,025,338	1,068,300
Indigenous Labor	365,707	363,600
Employer Health Benefits Contributions, Civilians Ashore	-	65,100
Employer Retirement Contributions, Civilians Ashore	529,751	547,500
Employer Life Insurance Contributions, Civilians Ashore	27,168	27,800
Employer Social Security Taxes, Civilians Ashore	5,242	3,300
<u>Indoctrination and Training</u>	44,012	44,800
<u>Design, Development and Experimental Expenses, Ships</u>	6,244	6,000
<u>Travel</u>	244,260	254,500
<u>Public Information</u>	2,867	2,900
<u>Other Expenses</u>		
Occupancy of Premises	379,093	439,800
Office Equipment Rental	102,995	103,000
Office Expenses, Stationery and Postage	302,647	295,100
Communications	273,114	287,900
Automotive Equipment Expense	47,519	43,900
Operational Equipment Expense	41,782	25,200
Repair and Replacement of Office Equipment	85,969	76,900
Medical Expenses, Civilian Personnel	6,059	5,400
Cash in Lieu of Quarters	107,077	106,600
Other Overhead Expenses	60,481	72,500
<u>TOTAL OVERHEAD EXPENSE</u>	<u>\$11,197,368</u>	<u>\$11,587,500</u>
<u>Less Reimbursables</u>	<u>\$ 77,902</u>	<u>\$ 118,000</u>
<u>NET OVERHEAD EXPENSE</u>	<u>\$11,119,466</u>	<u>\$11,469,500</u>

MILITARY SEA TRANSPORTATION SERVICE
SUMMARY OF CHANGES IN CAPITAL

103

SECTION

					Balance 6-30-62 Forecast
					Changes FY 1962 Forecast
					Balance 6-30-61
					Changes in FY 1961
					7-1-51 Through 6-30-60
					Balance 7-1-51 (Adjusted)
I. Capital					
Cash Allocated	\$100,000,000	\$ (59,035,582)	\$ -	\$ -	\$ 40,964,418
Inventories Donated	21,601,404	3,124,556	-	-	24,725,960
Retained Earnings Allocated	-	-	-	-	-
Sub-Total	\$121,601,404	\$ (55,911,026)	\$ -	\$ -	\$ 65,690,378
II. Liabilities Charged Against Capital					
Annual Leave	\$ (4,413,714)	\$ -	\$ -	\$ -	\$ (4,413,714)
Claims Bare Boat Charters	(4,000,000)	4,000,000	-	-	-
M & R Reserve	-	(10,427,130)	-	-	(10,427,130)
Sub-Total	\$ (8,413,714)	\$ (6,427,130)	\$ -	\$ -	\$ (14,840,844)
Net Capital I - II	\$113,187,690	\$ (82,338,156)	\$ -	\$ -	\$ 50,849,534
III. Retained Earnings					
Fiscal Year/Years	\$ -	\$ 28,490,466	\$2,073,779	\$ -	\$ 30,564,245
Prior Years Adjustments	\$ -	(11,366,597)	(27,618)	-	(11,394,215)
Allocation to Capital	-	-	-	-	-
Sub-Total	\$ -	\$ 17,123,869	\$2,046,161	\$ -	\$ 19,170,030
TOTAL CORPUS	\$113,187,690	\$ (45,214,287)	\$2,046,161	\$ -	\$ 70,019,564

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CHAPTER II

THEORY OF THE

Let us now consider the case of a body moving in a straight line. The velocity of the body at any time t is denoted by v , and the distance travelled by the body in time t is denoted by s . The acceleration of the body is denoted by a .

Suppose that the body starts from rest at the origin of the s -axis. Then the initial velocity is zero, and the initial distance is zero. The velocity of the body at any time t is given by

$$v = at$$

and the distance travelled by the body in time t is given by

$$s = \frac{1}{2}at^2$$

These equations show that the velocity of the body is proportional to the time, and the distance travelled by the body is proportional to the square of the time.

Suppose now that the body starts from rest at the origin of the s -axis, and that the acceleration is constant. Then the velocity of the body at any time t is given by

$$v = at$$

and the distance travelled by the body in time t is given by

$$s = \frac{1}{2}at^2$$

These equations show that the velocity of the body is proportional to the time, and the distance travelled by the body is proportional to the square of the time.

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